EXECUTIVE OFFICE OF HUMAN SERVICES

OFFICE OF AUDITING AND ACCOUNTS

FY 1989

ANNUAL LEGISLATIVE REPORT

JUNE 30, 1989

EXECUTIVE OFFICE OF HUMAN SERVICES

Michael S. Dukakis
GOVERNOR

Philip W. Johnston
SECRETARY

OFFICE OF AUDITING AND ACCOUNTS

Bruce F. Blaisdell
DIRECTOR

1 Ashburton Place Room 1109 Boston, Massachusetts 02108 (617) 727-7600

The Commonwealth of Massachusetts
Executive Office of Human Services
One Ashburton Place, Room 1109
Boston, Massachusetts 02108

MICHAEL S. DUKAKIS
GOVERNOR
PHILIP W. JOHNSTON
SECRETARY

June 30, 1989

The Honorable Patricia McGovern
Chairperson
Senate Committee on Ways and Means
State House
Room 212
Boston, MA 02133

Dear Chairperson McGovern:

The following report of the Executive Office of Human Services, Office of Auditing and Accounts, is respectfully submitted to the Senate Committee on Ways and Means in accordance with the requirements of Chapter 164, Acts of 1988, Item 4001-0010, which provides, in pertinent part: "... that the office shall submit semi-annually to the house and senate committees on ways and means, to the rate setting commission, to the office of the state auditor and to the secretary of the executive office for administration and finance a report on the audits performed, including the number, status, and summary of such audits, and the status of such responses as are requested from government agencies and human service vendors ...".

This administration has made a major commitment to management reforms to ensure the performance of human service agencies, and of human services providers in state-funded contracts.

The Office of Auditing and Accounts serves an important function, in reviewing the results of implementation of such initiatives. It is one of several ways of evaluating systemic issues and suggesting corrective action. The existence of a professional audit function like EOHS/OAA also serves as an effective tool for monitoring compliance with statutes, regulations, and proper recordkeeping practices. EOHS/OAA is part of our overall commitment to ensuring the continuing integrity of the human service system.

I believe this report demonstrates that commitment. Where administrative deficiencies have been identified, our agencies have taken actions to rectify them. In those few instances in which any inappropriate activities have been discovered, we have acted promptly to address them.

As you will see, the cases and statistics included in this report look back at agency and contracting activity between fiscal years 1986 and 1988. As a result of similar findings in earlier audit reports and other studies, EOHS has initiated a number of management reforms in the purchase of service system over the past few years. These initiatives have been implemented beginning in FY 1986, and continuing through FY 1989 and future years. Audit reports of contracting activity in FY 1989 and subsequent years will appear in future legislative reports, and will include a review of systemic improvements resulting from these initiatives.

Should you, or members of your staff, have any questions regarding this report, or a specific audit, please contact Bruce F. Blaisdell, Director, Office of Auditing and Accounts, at 727-7600, extension 531.

Sincerely,

Philip W. Johnston
Secretary

PWJ/BFB/bm

The Commonwealth of Massachusetts
Executive Office of Human Services
One Ashburton Place, Room 1109
Boston, Massachusetts 02108

MICHAEL S. DUKAKIS
GOVERNOR
PHILIP W. JOHNSTON
SECRETARY

June 30, 1989

The Honorable Richard Voke
Chairman
House Committee on Ways and Means
State House
Room 237
Boston, MA 02133

Dear Chairman Voke:

The following report of the Executive Office of Human Services, Office of Auditing and Accounts, is respectfully submitted to the House Committee on Ways and Means in accordance with the requirements of Chapter 164, Acts of 1988, Item 4001-0010, which provides, in pertinent part: "... that the office shall submit semi-annually to the house and senate committees on ways and means, to the rate setting commission, to the office of the state auditor and to the secretary of the executive office for administration and finance a report on the audits performed, including the number, status, and summary of such audits, and the status of such responses as are requested from government agencies and human service vendors ...".

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Secretary

PWJ/BFB/bm

The Commonwealth of Massachusetts
Executive Office of Human Services
One Ashburton Place, Room 1109
Boston, Massachusetts 02108

MICHAEL S. DUKAKIS
GOVERNOR
PHILIP W. JOHNSTON
SECRETARY

June 30, 1989

Mr. L. Edward Lashman
Secretary
Executive Office for Administration and Finance
State House
Room 320
Boston, MA 02133

Dear Secretary Lashman:

The following report of the Executive Office of Human Services, Office of Auditing and Accounts, is respectfully submitted to the Executive Office for Administration and Finance in accordance with the requirements of Chapter 164, Acts of 1988, Item 4001-0010, which provides, in pertinent part: "... that the office shall submit semi-annually to the house and senate committees on ways and means, to the rate setting commission, to the office of the state auditor and to the secretary of the executive office for administration and finance a report on the audits performed, including the number, status, and summary of such audits, and the status of such responses as are requested from government agencies and human service vendors ...".

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Sincerely,

Philip W. Johnston
Secretary

PWJ/BFB/bm

The Commonwealth of Massachusetts
Executive Office of Human Services
One Ashburton Place, Room 1109
Boston, Massachusetts 02108

MICHAEL S. DUKAKIS
GOVERNOR
PHILIP W. JOHNSTON
SECRETARY

June 30, 1989

Mr. A. Joseph DeNucci
State Auditor of the Commonwealth
State House
Room 229
Boston, MA 02133

Dear Auditor DeNucci:

The following report of the Executive Office of Human Services, Office of Auditing and Accounts, is respectfully submitted to the Office of the State Auditor in accordance with the requirements of Chapter 164, Acts of 1988, Item 4001-0010, which provides, in pertinent part: "... that the office shall submit semi-annually to the house and senate committees on ways and means, to the rate setting commission, to the office of the state auditor and to the secretary of the executive office for administration and finance a report on the audits performed, including the number, status, and summary of such audits, and the status of such responses as are requested from government agencies and human service vendors ...".

This administration has made a major commitment to management reforms to ensure the performance of human service agencies, and of human services providers in state-funded contracts.

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Philip W. Johnston
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The Commonwealth of Massachusetts
Executive Office of Human Services
One Ashburton Place, Room 1109
Boston, Massachusetts 02108

MICHAEL S. DUKAKIS
GOVERNOR
PHILIP W. JOHNSTON
SECRETARY

June 30, 1989

Ms. Paula Griswold
Chairperson
Rate Setting Commission
Two Boylston Street
Boston, MA 02116-4704

Dear Chairperson Griswold:

The following report of the Executive Office of Human Services, Office of Auditing and Accounts, is respectfully submitted to the Rate Setting Commission in accordance with the requirements of Chapter 164, Acts of 1988, Item 4001-0010, which provides, in pertinent part: "... that the office shall submit semi-annually to the house and senate committees on ways and means, to the rate setting commission, to the office of the state auditor and to the secretary of the executive office for administration and finance a report on the audits performed, including the number, status, and summary of such audits, and the status of such responses as are requested from government agencies and human service vendors ...".

This administration has made a major commitment to management reforms to ensure the performance of human service agencies, and of human services providers in state-funded contracts.

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Should you, or members of your staff, have any questions regarding this report, or a specific audit, please contact Bruce F. Blaisdell, Director, Office of Auditing and Accounts, at 727-7600, extension 531.

Sincerely,

Philip W. Johnston
Secretary

PWJ/BFB/bm

INDEX

		PAGE #
Section I:	Resolution Impact	2
Section II:	Overview	5
Section III:	Recovery of Funds	7
	Table I	8
	Table II	9
Section IV:	Summary of FY 1989 Resolved Audits	10
	Financial Status of Providers Reviewed	12
	Analysis of Donated Funds	13
Section V:	Status of Audits Assigned and Closed	14
Section VI:	Summary of Responses to Audit Referrals	15
Section VII:	Audit Resolution Procedures	18
Section VIII:	Individual Summaries of Audit Cases Resolved During Fiscal Year 1989	26
Section IX:	Glossary of Terms	148

EXECUTIVE OFFICE OF HUMAN SERVICES
OFFICE OF AUDITING AND ACCOUNTS
ANNUAL LEGISLATIVE REPORT
FISCAL YEAR 1989

SECTION I

RESOLUTION IMPACT

EOHS/OAA continues to be the **only** governmental function auditing, on a regular basis, a broad spectrum of human services providers, which hold over **$850 million** in state-funded contracts.

- EOHS/OAA has resolved **450** audit cases since establishing the original Audit Resolution Policy in FY 1985. Of those, **386** have been audits of human services provider organizations, and **64** have been audits of EOHS agencies or facilities. During FY 1989, **86** cases were resolved, including a review of **$93 million** in total revenue received by providers. In **354** of the **386** cases, concerning audits of providers, specific issues of administrative deficiencies have been referred to purchasing agencies (e.g., DMH, DMR, DSS, DPH). Those issues range from record-keeping deficiencies, to questionable expenses, to noncompliance with contract requirements. In each case, EOHS/OAA requires the purchasing agency to negotiate and submit for review a written administrative agreement signed by the provider, which effectively addresses each issue within an appropriate time frame.

EOHS/OAA also directs the recovery of funds from provider organizations contracting with EOHS agencies, based on audit findings.

- As of June 30, 1989, EOHS/OAA has recovered, or has directed EOHS agencies to recover, **$2,844,637** overall since FY 1983 (see Section III). Of that amount, **$1,285,149** has been recovered or will be recovered under existing repayment agreements.
- Additional findings questioning reimbursement in the amount of **$559,972** have been reviewed and resolved to the satisfaction of EOHS/OAA and of the remainder, **$999,516** is currently in process of negotiation between providers and EOHS agencies.

In many cases, EOHS/OAA has also referred other audit findings to other agencies that possess statutory or regulatory authority to take corrective administrative actions. In this way, EOHS/OAA helps ensure compliance with applicable laws and regulations. For example, EOHS/OAA referred:

- **84** cases to the Attorney General (primarily concerning issues within the jurisdiction of the Public Charities Division);
- **146** cases to tax agencies, **90** cases to the Internal Revenue Service, **47** cases to the Massachusetts Department of Revenue, and **9** cases to the Division of Employment and Training, concerning discrepancies in the filing of tax data and payment of taxes;
- **23** cases to the Department of Labor and Industries, concerning discrepancies in payment of wages;
- **261** cases to the Rate Setting Commission, concerning issues of potential adjustments to rates and of filing of cost data;
- **6** cases to the State Ethics Commission, concerning issues of potential conflict of interest;
- **55** cases to the Secretary of State, concerning discrepancies in corporate filing requirements.

As noted above, in addition to resolving audits of provider organizations, EOHS/OAA has resolved **64** audits of the EOHS agencies themselves, including agency divisions or facilities. These audits include those conducted by EOHS/OAA, and by the Auditor of the Commonwealth. Issues cited range from weaknesses in record-keeping and internal control systems for safeguarding assets, to lack of proper control over client funds, to potential lost revenue.

- In every case, EOHS/OAA required the agency to submit for review a written plan of actions taken to correct deficiencies cited within appropriate time frames.
- EOHS brought **23** cases to the attention of the Office of the Comptroller (primarily concerning issues of failure to adhere to required state accounting procedures); **2** cases were brought to the attention of the Attorney General.

Another important function performed by governmental auditors generally, including EOHS/OAA, is to generate data for executive agency managers, and for the legislature, concerning systemic issues. Over the past several years, audit reports conducted and resolved by EOHS/OAA have contributed significantly to the analysis and discussion of many important management reforms or improvements, implemented by EOHS and its agencies, and EOAF, in the area of purchased services. These include:

- the new Uniform Financial Report approach issued by the EOAF Office of Purchased Services;
- clarification of the roles and responsibilities of purchasing agencies, the Rate Setting Commission, and EOHS itself;
- issues concerning "surplus funds" and "deficits", so-called, and policies addressing those concerns, such as the EOHS Fiscal Procurement Resolution Policy (a.k.a. the "Re-Use and Recovery Plan");
- the EOHS Early Warning and Vendor Assistance Program;
- the establishment of Pre-Qualification Standards for contracting;
- improvements to the EOHS General Conditions; and
- highlighting the need for the evaluation by EOHS agencies of the quality and effectiveness of programs and services to Commonwealth clients.

SECTION II

OVERVIEW

The Executive Office of Human Services, Office of Auditing and Accounts (EOHS/OAA), is located in the cabinet secretariat which oversees eighteen line agencies, including major purchasing agencies (e.g., DMH, DMR, DSS, DPH) and the Rate Setting Commission. These agencies collectively purchase over **$850 million** in services from providers per year.

During fiscal year 1989, several significant developments occurred affecting EOHS/OAA:

- Over the past five years, EOHS/OAA has recovered, or directed its agencies to recover, **$ 2,844,637** in funds as a result of audit findings. Section III of this Report provides current information regarding the status of recovery activities. In light of the fiscal issues currently facing the Commonwealth, additional efforts are being made to make effective recovery a priority.
- EOHS/OAA has had to reduce its level of operations due to funding limitations. By June 30, 1989, staffing was reduced to 75% and CPA contracting was reduced to 67%. As a result, the numbers of audits that can be conducted and resolved, the amount of funds that can be recovered, and the numbers of administrative deficiencies that can be identified and addressed, have been significantly reduced. We currently review approximately 3% of the Purchase of Service system annually.
- EOHS/OAA coordinated a joint policy and audit response to the legislature concerning the DSS and DPW care systems, pursuant to Outside Section 65 of the FY 1989 budget.
- EOHS/OAA actively participated in the working group, convened by the EOAF Office of Purchased Services, to help design the new Uniform Financial Report (UFR). We are disappointed with the absence of compliance and internal control information in the first year and the inconsistency of the Report's application (e.g., not required of all providers). However, if these issues are rectified, in the long run, the UFR approach should generate more useful information for state managers, including enhanced accountability for spending of state funds, than the past system of multiple reports it replaces.

Major office functions include:

- Auditing purchase of service providers. As stated above, EOHS/OAA is the only governmental function auditing a broad spectrum of human services providers on a regular basis. EOHS/OAA has developed financial and performance audit guides which are specifically tailored to the auditing of these non-profit corporations. These guides are consistent with professional auditing standards set forth by the US Comptroller General. EOHS/OAA has developed the capacity to perform a multi-level audit program which includes: (l) a pre-audit survey and management review; (2) a limited scope financial and compliance audit; and (3) a full scope financial and compliance audit.

- Auditing human service agency facilities and functions. EOHS/OAA has conducted, as needed, reviews of particular entities and functions within EOHS and its agencies to ensure compliance with applicable laws, regulations and policies. For example, beginning in FY 1987, EOHS/OAA began a continuing series of program results audits, reviewing purchasing agency contracting processes and practices. In FY 1989, we developed an audit program to review agency practices for maintenance and expenditure of clients funds and other trust funds.

- Auditing federal block grants (Alcohol, Drug and Mental Health, and Preventive Medicine) consistent with OBRA requirements.

- Coordinating EOHS agency audit activity to ensure that duplication of limited audit resources does not occur. This includes maintaining a regular dialogue with the Auditor of the Commonwealth, to coordinate related activity.

- Resolving all types of audit reports to ensure that issues documented during audit are corrected by management. This includes reporting all pertinent information to the legislature, administrative officials, and other appropriate parties. Staff resolve audit reports prepared for EOHS/OAA by its own field audit staff and by contracted CPA firms, and direct and coordinate the resolution by EOHS agencies of audit reports prepared by other governmental auditors (e.g., Auditor of the Commonwealth). All such activity is in accordance with established EOHS audit resolution policies (see Section VII).

SECTION III

RECOVERY OF FUNDS

During fiscal years 1985 through 1989, pursuant to the EOHS/OAA Audit Resolution Policy established in November, 1984, and revised December, 1987, EOHS/OAA has recovered, and has directed agencies to recover, funds from provider organizations, based on findings cited in audits conducted by both EOHS/OAA and by the Auditor of the Commonwealth. The Legislative Report submitted for Fiscal Year 1988 contained a section detailing the status of the recovery or resolution of **$2,433,252** through June 30, 1988. During Fiscal Year 1989, an additional **$411,385** was directed for recovery, bringing the seven year total to **$2,844,637** (see TABLES I & II for a detailed breakdown).

TABLE I
EOHS DIRECTED RECOVERY

Agency	FY 1983- 1985	FY 1986	FY 1987	FY 1988	FY 1989	Total By Agency
EOHS/OAA	$ 582,970	$ 41,134	*	*	*	$ 624,104
DMH	88,059	495,829	$ 352,511	$ 134,686	$ 43,431	1,114,516
DMR				228,993	205,063	434,056
DSS	21,370	99,271	107,861	14,556	2,763	245,821
DPH	22,234	38,450	8,807	50,649	19,946	140,086
DPW					137,962	137,962
DOC	4,060					4,060
DYS		35,156	35,020	4,724	2,220	77,120
MRC		11,049	22,644	28,732		62,425
MCDHH				4,487		4,487
TOTAL	$ 718,693	$ 720,889	$ 526,843	$ 466,827	$ 411,385	$2,844,637

*--EOHS/OAA no longer recovers funds itself; rather, for the past few years, it has directed agencies to recover funds through the resolution process.

TABLE II
STATUS OF RECOVERY

Agency	Total Directed Recovery	Repayment Schedule	Recovered	Resolved	In Process
EOHS/OAA	$ 624,104	$ 13,015	$ 611,089		
DMH	1,114,516	13,274	325,958	$ 428,595	$ 346,689
DMR	434,056	3,130			430,926
DSS	245,821	70,147	53,536	62,997	59,141
DPH	140,086	15,085	70,698	29,505	24,798
DPW	137,962				137,962
DOC	4,060		4,060		
DYS	77,120	27,668	24,928	24,524	
MRC	62,425	48,074	14,351		
MCDHH	4,487		4,487		
TOTAL	$2,844,637	$ 142,319	$1,142,830	$ 559,972	$ 999,516

SECTION IV

SUMMARY OF FY 1989 RESOLVED AUDITS

EOHS/OAA has reported on **49** cases resolved from January 1 through June 30, 1989, in Section VIII, Individual Summaries of Audit Cases Resolved During FY 1989. In addition, EOHS/OAA reported on **37** such cases in the December 31, 1988 Legislative Report, for a total of **86** cases resolved in Fiscal Year 1989. These include **24** audits conducted by the Auditor of the Commonwealth, and **62** audits conducted by EOHS/OAA, and in different instances included a review of fiscal or calendar year(s) 1984 through 1987. In addition, of the **86** audits resolved, **30** of them were of state facilities or offices within EOHS and its agencies, and the other **56** were of human services providers. The findings cited are all material, but in some categories, they may vary from common infractions to serious compliance deficiencies. At the end of each case, the resolution activity is summarized by naming the agency to which each issue was referred. A summary of the resolution of these **86** audits found that auditees were not in compliance in the following areas:

Audits of Human Services Providers

- Internal Control Findings: Generally, these findings indicate weaknesses in the agencies' systems for safeguarding assets. In **50 (out of 56)** cases, the provider organizations were cited. Internal control findings usually also result in non-compliance with EOHS General Conditions, as well as non-compliance with other provisions of the contract.
- Compliance with the Terms of the Contract: In **31** cases, providers were not in compliance.
- Compliance with EOHS General Conditions: In **43** cases, providers were not in compliance.
- Undocumented/Disallowed Costs: **11** cases contained findings of undocumented or disallowed costs which were referred to EOHS agencies for resolution.
- Compliance with RSC Regulations Regarding Filing and Accurately Completing the Rate Setting Commission Cost Report: In **29** cases, providers were not in compliance.
- Compliance with Related Party Requirements: **5** of the provider organizations which engaged in related party transactions had not disclosed these as required.

– Compliance with Filing Requirements of the Internal Revenue Service, the Department of Revenue, or the Division of Employment Security: In **21** cases, providers were not in compliance.

– Compliance with the Filing Requirements of the Secretary of State: In **7** cases, providers were not in compliance.

– Compliance with Filing Financial Statements with the Public Charities Division of the Attorney General's Office or Compliance with Statutory Requirement for Corporate Dissolution: In **13** cases, providers were not in compliance.

– Compliance with the American Institute of Certified Public Accountants, Industry Audit Guide, Audits of Voluntary Health and Welfare Organizations: In **14** cases, providers were not in compliance.

Audits of State Facilities

– Internal Control Findings: Generally, these findings indicate weaknesses in the facilities' systems for safeguarding assets. In **16 (out of 30)** cases, facilities were cited.

– Lack of Proper Control of Inmate and Client Funds, Trust Funds, or Canteen Funds: In **8** cases, facilities were cited.

– Improper Control of Property and Equipment: In **7** cases, facilities were cited.

FINANCIAL STATUS OF PROVIDERS REVIEWED

The audit resolution process included a review of the financial status of the **86** entities audited by EOHS/OAA and the Office of the State Auditor described in this Legislative Report and the prior Legislative Report for Fiscal Year 1989. This review included an analysis of the fund balances stated on the financial statements of **48** provider organizations for the year(s) audited. In different instances, this included fiscal or calendar years 1984 through 1987. It should be noted that fund balances may include the value of buildings, furnishings and equipment, and investments, as well as cash. In **38** of the audits resolved, analyses of fund balances and excess or (deficit) revenue over expenses were not applicable, including **30** state facilities or agencies and **8** provider entities.

- *Positive Fund Balances*: In **44 (out of 48)** cases, providers were found to have positive overall fund balances in the year(s) audited, from a minimum of **$816** to a maximum of **$790,635**. These positive fund balances totalled **$6,564,974**.
- *Fund Deficits*: In **4** cases, providers were found to have overall fund deficits in the year(s) audited, from a minimum of **($3,716)** to a maximum of **($318,769)**. These fund deficits totalled **($347,823)**.
- *Excess Revenues over Expenses*: In **30 (out of 48)** cases , providers were found to have accrued overall excess revenues over expenses in the year(s) audited, from a minimum of **$870** to a maximum of **$517,277**. These excess revenues over expenses totalled **$1,510,696**.
- *Excess Expenses over Revenues*: In **18** cases, providers were found to have accrued overall excess expenses over revenues in the year(s) audited, from a minimum of **($570)** to a maximum of **($132,464)**. These excess expenses over revenues totalled **($728,402)**.

ANALYSIS OF DONATED FUNDS

In an effort to continue to provide useful information to the legislature, executive agency managers, and other interested parties, EOHS/OAA has conducted the following analysis. EOHS/OAA has reported on **86** cases resolved in this Legislative Report and the prior Legislative Report for Fiscal Year 1989, of which **38** cases were not appropriate for this study. Of the remaining **48** cases, sources of funding can be defined as below. This analysis is not intended to be extrapolated across the entire system of approximately 1200 service providers. For comparison purposes, the figures reported for this analysis for Fiscal Year 1988 have been provided.

	FY 89		FY 88	
	Amount	**Percent**	**Amount**	**Percent**
Total funding received from all sources:	$56,670,186	(100%)	$51,578,482	(100%)
Total funding received from EOHS agencies, including Medicaid:	$33,879,775	(60%)	$34,140,572	(66.2%)
Total funding received from other fee payors for services: (e.g. other state agencies, municipalities, client fees, federal government)	$18,223,937	(32%)	$14,181,050	(27.5%)
Total funding received from other sources: (e.g. investment and interest income, restricted donations)	$ 2,825,441	(5%)	$3,051,576	(6.0%)
Total unrestricted donations, gifts, contributions:	$1,741,033	(3%)	$205,284	(.3%)

SECTION V

STATUS OF AUDITS ASSIGNED

Financial and Compliance Audits

Fiscal year 1989	CPA	Staff	Total
Work in Progress as of 7/1/88	33	50	83
Assigned During FY 1989	8	27	35
Cancelled	2	1	3
Total Work in Progress During FY 1989	39	76	115
Completed (to resolution)	30	41	71
Work in process as of 6/30/89	9	35	44

SUMMARY OF CLOSED AUDITS

EOHS/OAA has been very successful during the last two fiscal years in closing audits. An audit is closed when all deficiencies cited have been addressed and all appropriate funds have been recovered. This success was achieved by working with our agencies, especially concerning older audits, to resolve the outstanding deficiencies cited. During Fiscal Year 1989, EOHS/OAA has closed **125** audits. In Fiscal year 1988, **112** audits were closed.

SECTION VI

SUMMARY OF RESPONSES TO AUDIT REFERRALS

During FY 1985 through 1989, EOHS/OAA reported on **450** audits in twelve legislative reports. Pursuant to policy, EOHS/OAA distributes audit reports and requires corrective action from governmental agencies which possess the statutory or regulatory authority to correct deficiencies cited (these policies are more fully explained in Section VII, Audit Resolution Procedures). The status of responses required by EOHS/OAA as of 6/30/89 includes the following:

	FY'85-'88 Audit Referrals			FY 89 Audit Referrals					
AGENCY	REF.	CLOSED	OUT.	REF.	RESP. REC.	CLOSED	*	DUE AFTER 6/30/89	OUT.
AG/PC	71	59	12	13	10	9	1	2	1
COMP	0	0	0	1	0	0	0	0	1
DET	6	5	1	3	1	1	0	0	2
DMH	181	157	24	16	9	9	0	5	2
DMR	0	0	0	14	5	3	2	0	9
DOC	10	10	0	6	5	5	0	1	0
DOL	21	17	4	2	0	0	0	2	0
DOR	44	34	10	3	0	0	0	0	3
DPH	58	55	3	25	18	11	7	5	2
DPW	10	9	1	5	4	2	2	1	0
DSS	114	108	6	30	9	8	1	7	14
DYS	11	11	0	1	1	1	0	0	0
EOAF	2	1	1	0	0	0	0	0	0
HHS/IG	3	2	1	0	0	0	0	0	0
IRS	75	63	12	15	14	14	0	1	0
MPBA	6	4	2	4	2	2	0	0	2
MCB	2	2	0	1	0	0	0	1	0
MCDHH	1	1	0	1	1	1	0	0	0
MOIG	11	8	3	0	0	0	0	0	0
MRC	9	9	0	2	1	1	0	1	0
OCJ	1	1	0	1	1	0	0	0	0
OCM	39	39	0	8	5	5	0	3	0
OFC	1	1	0	1	1	1	0	0	0
OGC	5	5	0	0	0	0	0	0	0
RSC	235	235	0	26	24	22	2	1	1
SEC	4	4	0	2	1	1	0	0	1
SOHO-C	1	1	0	1	1	1	0	0	0
SOHO-H	0	0	0	2	0	0	0	2	0
SOS	49	47	2	6	3	3	0	1	2
TOTALS	970	888	82	189	116	101	15	33	40

REF. = Referred to Agency
RESP. REC. = Response received
OUT. = Outstanding
* = Response referred back to Agency for additional review

EXPLANATION OF ACRONYMS

AG/PC	Attorney General Public Charities Division
COMP	Comptroller's Division
DET	Division of Employment and Training
DMH	Department of Mental Health
DMR	Department of Mental Retardation
DOC	Department of Correction
DOL	Department of Labor and Industries
DOR	Department of Revenue
DPH	Department of Public Health
DPW	Department of Public Welfare
DSS	Department of Social Services
DYS	Department of Youth Services
EOAF	Executive Office for Administration and Finance
HHS/IG	US Department of Health and Human Services, Office of Inspector General
IRS	Internal Revenue Service
MBPA	Massachusetts Board of Public Accountancy
MCB	Massachusetts Commission for the Blind
MCDHH	Massachusetts Commission for the Deaf and Hard of Hearing
MOIG	Massachusetts Office of Inspector General
MRC	Massachusetts Rehabilitation Commission
OCJ	EOHS Office of Criminal Justice

OCM	EOHS Office of Contract Management
OFC	Office for Children
OGC	EOHS Office of General Counsel and Investigations
RSC	Rate Setting Commission
SEC	State Ethics Commission
SOHO-C	Soldiers' Home, Chelsea
SOHO-H	Soldiers' Home, Holyoke
SOS	Secretary of State

SECTION VII

AUDIT RESOLUTION PROCEDURES

Audit resolution activity in the individual cases summarized in this Report occurred during the six months ended June 30, 1989.

EOHS/OAA resolution policies require that audit reports, and the resulting resolution recommendations, be distributed to responsible government officials and organizations which have the statutory or regulatory authority to take corrective administrative action. To insure implementation and maintenance of sound management practices, EOHS/OAA requires that the primary EOHS purchasing agency and the provider organization enter into a written plan of action to correct administrative deficiencies. Audit issues which affect rates of reimbursement paid to provider organizations are routinely referred to the Rate Setting Commission for rate redetermination or other action, or to the purchasing agencies for reimbursement adjustment or budget renegotiation. Others matters are referred to the state or federal governmental agency which has jurisdiction over the issue.

All audits whose summaries are found in this Legislative Report were resolved pursuant to the following EOHS/OAA Audit Resolution Policy, effective December 1, 1987.

EOHS AUDIT RESOLUTION POLICY
(Effective December 1, 1987)

EOHS/OAA resolution policies dictate that audit reports and the resultant resolution recommendations be distributed to responsible government officials and organizations that possess the statutory or regulatory authority to take corrective administrative actions. This is intended to be consistent with the requirements of *Standards for Audit of Governmental Organizations, Programs, Activities, and Functions* ("Yellow Book") promulgated by the Comptroller General of the United States, and other standards applicable to governmental auditors.

In order to insure the implementation and maintenance of sound management practices, EOHS/OAA requires that the primary EOHS purchasing agency and the provider organization enter into a written plan of action to correct administrative deficiencies (e.g., poor or non-existent books or records, lack of internal controls, inadequate safeguards of client funds, etc). This plan must specify the manner in which each deficiency will be addressed and the date by which that action will be completed, and must be signed by both parties. Each plan is reviewed by EOHS/OAA for adequacy before the audit is considered closed.

In addition, audit findings which affect reimbursement paid to provider organizations (e.g., disallowed costs, overbilling, underspending, undocumented expenses, over and/or underutilization) are routinely referred to the Rate Setting Commission for rate adjustments or other action, or to purchasing agencies for reimbursement adjustments or budget renegotiation. Other matters are referred to the state or federal governmental agency which has jurisdiction over the issue. All policies and procedures contained herein pertain only to resolution of audit findings, resulting from testing and reporting compliance with existing standards, including other policies issued by EOHS.

A summary of present EOHS/OAA resolution policies includes the following:

	Condition	Referred To
1.	Administrative Deficiencies	EOHS Purchasing Agencies
2.	Non-performance of Services	EOHS Purchasing Agencies
3.	Conflict of Interest	State Ethics Commission Inspector General
4.	Disallowed Costs/Expenses	Rate Setting Commission EOHS Purchasing Agencies
5.	Failure to File Documents Required by Law	Secretary of State Attorney General State Taxing Agencies Federal Taxing Agencies
6.	Failure to Make Payments Required by Law	State Taxing Agencies Federal Taxing Agencies Attorney General
7.	Fraud	Attorney General Inspector General
8.	Misconduct of State Employee	State Ethics Commission Attorney General Inspector General
9.	Non-Compliance	Rate Setting Commission EOHS Purchasing Agencies EOHS Office of Contracts Management Inspector General
10.	Overbilling	Rate Setting Commission EOHS Purchasing Agencies Inspector General

Condition	Referred To
11. Underspending	Rate Setting Commission EOHS Purchasing Agencies
12. Undocumented Expenses	Rate Setting Commission EOHS Purchasing Agencies Inspector General
13. No Material Finding	File Closed

Reimbursement Findings

I. Recovery of Funds Under All Contracts

A. Non-Performance Under the Contract

Non-performance under contracts means services were not delivered, or services delivered did not meet standards established by the purchasing agency in the contract. In the event of non-performance, recovery of funds is appropriate. Such cases will be resolved through negotiations between the provider and the purchasing agency. Once a determination of non-performance is made, the focus of discussion should be the manner of resolution which is most appropriate under the circumstances, and if not already determined, the value of services which were not rendered.

B. Fraudulent Billing

All reimbursements to a provider which have been determined to be supported by fraudulent documentation will be disallowed. Funds fraudulently acquired must be promptly recovered in full and returned to the Commonwealth. All such cases will be referred to the Attorney General, and the Inspector General.

C. Undocumented Reimbursement

In the present system of EOHS contract requirements, General Conditions, Rate Setting Commission requirements, and purchasing agency requirements, under all contracts, regardless of the reimbursement mechanism, providers are required to maintain appropriate documentation of actual allowable expenses, revenues, and service provision. In the event of a determination of a failure to maintain adequate and appropriate documentation, depending upon the circumstances, recovery of funds or rate adjustments may occur as a basis for resolution, in accordance with the reimbursement mechanism. In the case of contractual relationships other than cost reimbursement contracts, other evidence, in the form of credible and convincing alternative documentation, that the services in question were actually rendered and that allowable expenses in question were actually incurred will be considered. In such cases, however, in order to prevent reoccurrence of recordkeeping deficiencies in subsequent years, satisfactory written resolution of all such audit determinations must have been reached.

D. Disallowed Expenses

Under all contracts, reimbursement to providers is permitted only for actual allowable expenses, as defined in EOHS contract requirements, General Conditions, Rate Setting Commission requirements, and/or purchasing agency requirements. Depending upon the circumstances, actual expenses for unallowable items may be subject to recovery or rate adjustments, in accordance with the reimbursement mechanism.

E. Billing Errors

Errors in invoices submitted to the Commonwealth for reimbursement, which do not constitute fraud, will be referred to the purchasing agency to be rectified in the most appropriate manner possible under the circumstances.

F. Significant Underspending for Staffing

For purposes of this section, review of the cost of staffing shall take into consideration payroll, the cost of relief staff and consultants, compensated overtime performed by existing staff, related taxes, related benefits, and the like.

For purposes of resolution of audit findings concerning reimbursement, a determination that any program or cost category for which spending for staffing during the period was below 90 percent of the funds budgeted or allocated for staffing in any portion of the contracts funding such program or cost category, shall be referred to the purchasing agency for a determination whether recovery of funds is appropriate.

II. Underspending or Overspending in Unit Rate Contracting

A. Class Rate Contracting

Under class rate contracting, the provider is paid a per-unit rate which has been established by the Rate Setting Commission for all programs offering a particular type of service. In the event of a determination of any variance between reimbursement received under contracts funded by class rates, and a provider's actual allowable expenses associated with such contracts, the information will be reported to the Rate Setting Commission. If any variance is greater than five percent or $50,000, whichever is less, the RSC will be requested to resolve the determination by specifically identifying the manner in which the information has been or will be taken into account in prospective class rate determinations. If the variance is less than that, no response will be required. All such variances will also be reported to the purchasing agency for informational purposes.

B. Non-Negotiated Historical Cost-Based Unit Rate Contracting

Under these contracts, the provider is paid a per-unit rate which has been established solely by the Rate Setting Commission for a specific program on the basis of historical costs of the program. In the event of a determination of any variance between reimbursement received under contracts funded by such rates, and a provider's actual allowable expenses associated with such contracts, the issue will be resolved in the same manner specified above for Class Rate Contracting.

In any case resolved pursuant to II (A) or (B) above, if upon further review the Rate Setting Commission finds that fraudulent billing, undocumented reimbursement, disallowed expenditures or significant underspending for staffing occurred, it should resolve such determinations in a manner consistent with I (A through E) above.

C. <u>Negotiated Historical Cost-Based Unit Rate Contracting</u>

Under these contracts, the provider is paid a per-unit rate for a specific program on the basis of a budget negotiated between the purchasing agency and the provider and approved by the Rate Setting Commission. In the event of a determination of any variance between reimbursement received under contracts funded by such rates and a provider's actual allowable expenses associated with such contracts, the information will be reported to the purchasing agency. If any variance is greater than five percent or $50,000, whichever is less, the purchasing agency will be required to resolve the determination by specifically identifying the circumstances or practices which caused the variance to occur, and the manner in which the information has been or will be taken into account in prospective contract negotiations to prevent such circumstances or practices from causing reoccurrence of such variances. If the variance is less than that, no response will be required. All such variances, and all agency responses concerning such variances, will also be reported to the Rate Setting Commission for informational purposes.

However, if upon further review the purchasing agency finds that non-performance under the contract, fraudulent billing, undocumented reimbursement, disallowed expenditures, or significant underspending for staffing occurred, it must resolve such determinations in a manner consistent with I (A through E) above.

SECTION VIII

INDIVIDUAL SUMMARIES OF AUDIT CASES RESOLVED DURING FY 1989
JANUARY 1 THROUGH JUNE 30, 1989
ALPHABETICAL LISTING OF ORGANIZATIONS

This section provides a summary of audit report findings and resolution activity which took place during the period January 1, 1989 to June 30, 1989. More detailed information is available upon request.

	Auditee Name	Audit #	Page
1.	Anawan Associates, Inc.	0-616-88	30
2.	Assoc. for the Support of Human Services, Inc.	0-270-88	31
3.	Belchertown State School * Department of Mental Retardation	88-244-1	33
4.	Bristol County Community Residences, Inc.	0-506-87	38
5.	Department of Mental Health Springfield Area Office	0-602-88	44
6.	Department of Social Services Worcester Regional Office	0-601-88	46
7.	Dimock Community Health Center, Inc.	C-568-88	47
8.	Family Counseling Service (Region West), Inc.	BC-480-88	49
9.	Family Services of Dedham, Inc.	BC-572-87	52
10.	For Individuals Recovering Sound Thinking, Inc. (FIRST)	BC-578-87	54

* Audited by the Auditor of the Commonwealth

	Auditee Name	Audit #	Page
11.	Franklin County Mental Health Association, Inc.	0-179-86	56
12.	Franklin Medical Center	C-582-88	59
13.	W.C. Gaebler Children's Center * Department of Mental Health	88-1046-1	61
14.	Gardner-Athol Area Mental Health Association, Inc.	0-579-88	62
15.	Great Brook Valley Comprehensive Child Care Services, Inc.	0-605-88	66
16.	Hillcrest Educational Centers, Inc.	0-453-87	68
17.	Independence Associates, Inc.	C-613-88	75
18.	Infants and Other People, Inc.	C-592-88	77
19.	Jack N'Jill Kindergarten and Child Care Center, Inc.	0-512-87	79
20.	Jackson Mann Community School Council, Inc.	C-595-88	81
21.	KLH Child Development Center, Inc.	0-519-87	83
22.	La Alianza Hispana, Inc.	BC-555-87	85
23.	Lowell House, Inc.	BC-570-88	86
24.	Main South Neighborhood Association, Inc.	C-584-88	87
25.	Massachusetts Adoption Resource Exchange, Inc.	C-596-88	89

* Audited by the Auditor of the Commonwealth

	Auditee Name	Audit #	Page
26.	Massachusetts Commission for the Deaf and Hard of Hearing *	88-302-1	91
27.	Massachusetts Easter Seal Society, Inc.	0-598-88	92
28.	Massachusetts Residential Services, Inc.	0-521-87	93
29.	Norfolk Human Services, Inc.	BC-251-87	97
30.	Northampton State Hospital * Department of Mental Health	88-263-1	98
31.	North Charles Mental Health Research and Training Foundation, Inc.	BC-577-87	99
32.	Pioneer Developmental Ctr., Inc.	0-356-87	101
33.	Barry L. Price Rehabilitation Center, Inc.	0-523-88	104
34.	Project Turnabout, Inc.	C-106-88	107
35.	Prospect House, Inc.	BC-065-88	112
36.	Report on the Controlling and Monitoring of Non-Tax Revenue by Various State Agencies *	88-5014-9	114
37.	Sojourn, Inc.	C-588-88	122
38.	Soldier's Home-Holyoke *	88-64-1	124
39.	St. Paul's Outreach	0-599-88	128
40.	Team Coordinating Agency, Inc.	BC-211-88	129

* Audited by the Auditor of the Commonwealth

	Auditee Name	Audit #	Page
41.	Transition House, Inc.	C-594-88	131
42.	United Cerebral Palsy Association of Metropolitan Boston, Inc.	C-591-88	133
43.	University of MA Trustees	C-581-88	134
44.	Valley Oasis in Child Education, Inc. (VOICE)	0-606-88	136
45.	Valley Resource Center, Inc.	0-608-88	138
46.	Vinfen Corporation	BC-569-87	141
47.	Webster Square Day Care Center, Inc.	C-583-88	142
48.	Worcester Area Community Mental Health Center, Inc.	BC-576-88	144
49.	Work Opportunity Center, Inc.	C-587-88	146

* Audited by the Auditor of the Commonwealth

Auditee Name:	Anawan Associates, Inc. 366 Winthrop Street Rehobeth, Ma. 02769
Audit #:	0-616-88

Anawan Associates, Inc., a non-profit corporation,providedaftercare, case management, and outpatient services during the audit period. The provider contracted with the Department of Mental Health and was audited for the year ended June 30, 1987.

A summary of the audit report includes:

A. The financial statements of Anawan Associates, Inc., audited by Kathleen M. Hughes, Certified Public Accountant, indicated a $139,669 Fund Balance, comprised of $87,975 Unrestricted Current Fund, $29,343 Restricted Current Fund and $22,351 Plant Fund, as of June 30, 1987. This balance included excess income over expenses of $28,205, which accrued during fiscal year 1987.

Total revenues received by the provider for this same period amounted to $523,475, of which $300,161 was generated by the Department of Mental Health contracts and support. Of the $222,262 generated from other fee-for-service payments, $196,063 was from client fees and $26,199 was from community support. Additionally, $1,052 in interest income was received.

EOHS agency revenues received by the provider, $300,161, represented approximately 57 percent of total income, while other fee payors for service represented approximately forty-two percent of total income. The remaining revenues represented less than one percent of total income.

This audit was sent to DMH for informational purposes. No action was required.

Auditee Name:	Association for the Support of Human Services, Inc. 138 East Mountain Road Westfield, Ma. 01085
Audit #:	0-270-88

Association for the Support of Human Services, Inc., a non-profit corporation, operated a variety of programs for the families of the disabled during the audit period. The provider contracted with the Departments of Mental Health, Social Services, Public Health, The Massachusetts Commission for the Blind, and the Office For Children, and was audited for the year ended June 30, 1987.

A summary of the audit report findings includes:

A. There were several weaknesses noted in the provider's internal controls.

B. A detailed accounts receivable listing was not maintained on a monthly basis as bills to the various funding sources were prepared. A similar finding was cited in a prior EOHS audit conducted for fiscal year 1982.

C. The books and records maintained by the provider did not allocate expenses by contract and funding source. This finding was also cited in a prior audit report conducted by EOHS for fiscal year 1982.

D. The provider's financial records did not document the value of donated services provided by DPH, in the amount of $52,787, and DMH, in the amount of $31,868, as required. In addition, these figures were not included on the provider's RSC 1100 Cost Report for the fiscal year ending June 30, 1987.

E. Based on a review of Schedules 19 and 22 to the RSC 1100 Cost Report, the provider incurred a deficiency of ($91,382) in EOHS funded programs during fiscal year 1987.

F. The financial statements of the Association for the Support of Human Services, Inc. audited by Lawrence P. Zabielski, CPA, indicated a $101,401 fund balance comprised of a $67,575 operating fund, and a $33,826 property fund, as of June 30, 1987. This balance included a deficiency of expenses over income of ($46,630) which accrued during fiscal year 1987.

Total revenue and support received by the provider for this same period amounted to $882,857, of which $534,159 was generated by Departments of Social Services, Mental Health, Public Health, the Office of Children, and the Massachusetts Commission for the Blind contracts and support. Of the $120,318 generated from other fee-for-service payments, $63,309 was subcontract income from other providers, $37,414 from the U.S. Department of Education, $16,669 from local municipalities and $2,926 from private fees. Additionally, $156,444 was received from donations and fund raising, $67,800 was received from a restricted grant from the City of Boston Trust for the establishment of Kamp for Kids East, and $4,136 was from interest and miscellaneous income.

EOHS revenue and support received by the provider, $534,159, represented 60 percent of total income, while other fee payors for service represented fourteen percent of total income. The remaining revenue represented twenty-six percent of total income.

EOHS/OAA requested that DMR negotiate an administrative agreement with Association for the Support of Human Services, Inc., which addresses findings A, C, D, and E. DPH was requested to negotiate an administrative agreement that addressed findings D and E. DSS was requested to negotiate an administrative agreement that addressed finding B. Finding D also was referred to the RSC for whatever action is deemed appropriate. The provider's financial condition, as noted in findings E and F, was referred to the attention of EOHS/OCM. Appropriate responses have been received from DPH, RSC, and EOHS/OCM.

Auditee Name: Belchertown State School
Belchertown, MA 01007-0486

Audit #: 88-244-1

The Belchertown State School is a facility maintained by the Department of Mental Retardation. It provides for the care, treatment, and custody of mentally retarded persons. The School was audited by the Auditor of the Commonwealth for the fiscal year ended June 30, 1987. A summary of the findings contained in the report is as follows:

A. A review of the internal controls concerning client funds disclosed the following:

1. The Auditors tested 73 expenditures for sufficient supporting documentation. It was determined that 17 expenditures, totalling $11,519 and comprising 23% of the total expenditures, were not adequately supported. Receipts for trips were disorganized and not traceable to specific individuals or trips. In addition, the Auditor traced 21 of these expenditures to required clients' individual spending plans (ISP). It was determined that 7 expenditures were not reported on either an ISP or an ISP revision, as required. It was also noted that 18 client ISP plans tested were not approved by the school or a guardian.

   The School has taken steps which would, if properly implemented, correct all deficiencies cited.

2. A review of 8 client files of individuals who had died determined that the school had not maintained a perpetual inventory of clients' valuables and possessions, thereby making accurate disposition of their belongings impossible. In addition, in 3 of the 8 cases, the determination of the final disposition of the individuals' assets was not available.

   The Auditor reported that the School had taken steps to improve this aspect of client record maintenance and retention.

3. The School did not report to the Internal Revenue Service payments to 19 out of 37 "paid companions," who earned in excess of $600 during calendar year 1987. Total payment to these individuals was $34,888. In addition, the School did not maintain a record of companion earnings, adhere to a standard rate of companion pay, outline specific companion responsibilities, or maintain uniform companion hiring procedures.

   In its response to the Auditor's report, the School outlined new companion procedures which would be implemented in January, 1989.

4. A review of Residents' Fund trial balances as of June 30, 1987 determined that 178 of 375 residents, 47% of the population, had funds in excess of $150 in this non-interest-bearing account. The funds above $150 per client should have been transferred to individual interest-bearing client bank accounts.

   In its response, the School outlined steps it planned to take with respect to this issue.

B. The School maintained a multi-business operation named Career Services. It sold various products and services to the residents, employees and the general public through three divisions: Independent Vending Services (IVS), Container Redemption Center (CRC), and Quabbin Woodproducts and Novelties (QWN). Total receipts for fiscal year 1987 were $122,945, and estimated fiscal year 1988 sales were above $180,000. All financial activity was recorded in the School's Canteen Fund records. A review of the internal controls for the Career Services financial operation revealed the following deficiencies:

   1. IVS did not maintain written contracts for 19 of the 29 vending machines found on the grounds. The School stated, in its response, that it was in the process of obtaining these contracts.

   2. IVS did not reconcile cash collected from its vending machines either to the vending machine meter readings or to an inventory of goods sold.

3. QWN did not provide customers with a copy of sales receipts, did not maintain prenumbered receipts, and subsequently discarded any receipts maintained. In addition, a review of Canteen Fund records showed that no sales tax was collected on QWN sales. Subsequent records showed payment of taxes to the Department of Revenue during the audit period. However, there was no basis on which to determine the accuracy of collection and payment.

4. All monies collected by Career Services were deposited into the Canteen Fund. However, each division made its own deposit to the Career Services office, which in term made daily or weekly deposits to the bank. A copy of the deposit slip was given to the Treasurer's Office, which recorded the transaction in the School's records. There was no reconciliation made by the Treasurer's Office between the amount deposited and the documentation supporting the deposit at the division level. In addition, it was noted that CRC retained two checks totalling $2,186 in sales receipts, and that QWN retained $116 in sales receipts, in an unlocked drawer for over a week.

5. CRC maintained two cashboxes which totalled $1,200, one for refunds owed to customers and one to be used for future refunds.

   - Neither was reconciled monthly by the Treasurer's Office, as were the School's other cashboxes.
   - The director of CRC received $39,500 during fiscal year 1987 to replenish these cashboxes, without first having to verify the use of funds.
   - One cashbox maintained $531 in refund money due to customers dating back to 1984.

   In addition, the Auditor noted that QWN had a $35 change fund which was not reported in the Canteen Funds cashbooks, and was out of balance when tested.

In its response, the School stated that it had taken steps to address all of the deficiencies noted in the internal controls of Career Services. The Auditor has also noted that the School has acted on its recommendations for improvement.

C. The Auditors noted several deficiencies in the area of inventories of materials and supplies, and furniture and equipment as follows:

1. A variance representing a shortage of 1,832 gallons of gasoline existed for the fiscal year 1987. Readings were taken before and after each delivery. However, these measurements were not reconciled to the stock ledger and the logbook balances. The exact cause of this shortage could not be determined.

2. The School could not produce the complete package of worksheets which supported the inventory shown on the Fiscal Year 1987 GAAP Report, filed with the Office of the Comptroller. The actual date of inventory was not May 31, 1987, as required.

3. A physical inspection of 121 items determined that 16 were transferred to other locations without the proper management approval. In addition, a review of new equipment at the School's storehouse determined that it had not been tagged prior to storage.

The School responded that it would maintain improved inventory controls. This was supported by statements made by the Auditor in the report, indicating that the School had acted on recommendations.

D. The observation of weekly payroll distribution revealed the following:

- Employees did not have identification cards.
- Employees were not required to sign for the receipt of their paycheck.
- Paychecks were mailed out of the Treasurer's Office rather than from the Payroll Office.
- If a paycheck was not picked up by an employee, it remained in the Treasurer's Office for an unspecified period.
- Employees were allowed to pick up other individuals' paychecks, sometimes without an individual's permission.
- There were no formal guidelines for payroll distribution.

The Auditor reported that the School had revised its payroll procedures as of January 1, 1989.

E. The School had deficiencies in the following administrative and accounting areas:

1. A sample test of 66 travel expenditures determined that 30 had been for mileage greater than that allowed by the Milo Mileage guide. These excess expenditures were not accompanied by a justification statement, as required by the School's procedures manual.

   The School responded that it would revise its travel reimbursement policy to document all travel submitted, and to adhere to Comptroller policy.

2. The Auditor's review showed that the School's Budgetary Control Register (BCR) neither agreed nor reconciled to the Comptroller's Massachusetts Management Accounting and Reporting System (MMARS) records. In addition, the BCR had not been updated to correspond to the MMARS reporting format.

   The School responded that its system of encumbrances and expenditures now reconciled to MMARS Report 342A. However, it no longer maintained a BCR.

3. The Auditors noted that actual disbursements which made up the employees' share of Canteen Fund expenditures (25% of the excess of income over costs of operation) were not traceable to individuals who received the benefits.

   The School responded that it was now possible to trace all expenditures to beneficiaries.

EOHS/OAA requested that DMR respond in writing describing the actions taken to address each of the weaknesses noted. In addition, DMR was asked to review the systems which the School has put in place to determine their effectiveness, especially in light of the School's announced closing in the foreseeable future.

Auditee Name:	Bristol County Community Residences, Inc. 7 Park Street Attleboro, Ma. 02703
Audit #:	0-506-87

Bristol County Community Residences, Inc., a non-profit corporation, provided administrative services for two group homes and one respite care facility during the audit period. The provider contracted with the Department of Mental Health and was audited for the period ended June 30, 1986.

A summary of the audit report findings includes:

A. There were several significant weaknesses noted in the provider's internal controls. The combined effect of these weaknesses is an environment with the potential for fraud, waste, and abuse.

B. The provider had two fiscal conduit contracts totaling $113,387 with DMH during fiscal year 1986. These contracts state in their Secondary Program Components that only administrative support services were being purchased. They went on to state that all clinical services and supervision were provided by DMH. A fiscal conduit has been defined by the Executive Office of Human Services, Office of Contract Management as a vendor providing no programmatic services, but rather payment for fiscal management services only.

C. The provider did not maintain copies of its fiscal year 1986 contracts.

D. The provider had not filed an Annual Report with the Secretary of State's Office for fiscal year 1986. It was further determined, through a visit to the Secretary of State's Office, that Annual Reports had never been filed by this provider. A recent review of records at the Office of Secretary of State determined that these documents had since been filed.

E. A copy of the provider's fiscal year 1986 Attorney General's Form P.C. was obtained from the provider's CPA. However, there was no copy of the report on file at the Attorney General's Office.

F. A review of the provider's fiscal year 1986 Attorney General's Form P.C. and the IRS Form 990 obtained from the provider's CPA disclosed that the wrong employer identification number was used on both forms. In addition, both forms failed to disclose a related party relationship.

G. The provider had not filed an RSC 1100 Cost Report for fiscal year 1986 as of May 1987. The provider did not have a copy of the report at its administrative offices. A copy of the report was obtained from the provider's CPA.

H. The provider did not maintain current general or accounts payable ledgers.

I. The provider had a total of 23 (FTE) DMH employees working on the two contracts that it had, but the provider did not have a Partnership Agreement.

J. The provider did not have licenses for the three sites it maintained.

K. The provider's fixed asset/depreciation schedule did not list the source of funds used to purchase furniture and equipment. In addition, the provider's DMH fixed asset list had not been updated with regard to purchases since fiscal year 1982. Also, a sample inventory was taken at the provider's administrative offices using the DMH inventory list. The following items could not be located: one typewriter, one typing stand and several chairs.

L. The provider did not file Forms 941 with the IRS for the third and fourth quarters of 1985, and the first quarter of 1986 in a timely fashion. The filing for the second quarter of 1986 could not be found on site. The provider paid $551 in interest and late penalties on the filing of the fourth quarter of 1985 and the first quarter of 1986.

M. The provider did not file its Forms M-941 with DOR for the third and fourth quarters of 1985 and first quarter of 1986 in a timely manner. The filing for the second quarter of 1986 could not be found on site. The provider paid $63 in fees for the late filings.

N. The provider did not issue a W-2 to its employee, who earned $5,423, nor did it submit to the IRS a W-3 transmittal, which identifies all salaries paid by the provider.

O. The provider paid an independent contractor for repairs and maintenance through line items on both DMH contracts. This individual received $2,771 during calendar year 1985, and $1,032 during calendar year 1986. An IRS Form 1099 could not be found for either of these calendar years.

P. The provider did not have time sheets or payroll cards to document $8,748 of payroll expenses for July, 1985 through December, 1985.

Q. In a review of documentation supporting provider costs under the two DMH cost reimbursement contracts, two months of invoices were tested. Of 127 items invoiced per the Standard Invoices, 44 items totaling $3,540 could not be traced to a properly cancelled invoice on file.

R. The provider's cash disbursements were also tested. Of the 50 transactions tested, 32 transactions totaling $6,280 could not be traced to cancelled invoices on file.

S. The audit of this provider was requested by DMH to address the issue of possible theft of funds. Because of this request, client rental payments for this provider's two group homes and respite facility were reviewed for fiscal years 1985 and 1986. Attendance records were traced to rental payments to determine if variances existed. The following variances were noted in an attempt to reconcile client attendance to client rental receipts:

1. During fiscal year 1986, $7,635 in potential rental income was uncollected at the North Attleboro group home; $9,200 was uncollected in fiscal year 1985.

2. During fiscal year 1986, $5,190 in potential rental income was uncollected at the Norton group home; $5,804 was uncollected in fiscal year 1985.

   The rental payments made for the 11 clients whose money was handled by the former executive director/bookkeeper were traced accurately to attendance records.

3. The attendance maintained at the respite facility was not traceable to the receipts of rental payments. The provider maintained no accounts receivable for the clients' payments. Money received was not designated as to which period it pertained. Respite rent was collected in cash, with no receipts given to clients. There were several months noted in which no rents were recorded as being received.

T. Because of the extent of the testing done concerning the client rental payments, an error of overstatement was found in the provider's rent revenue figure. The executive director/bookkeeper was terminated in May, 1986. After this dismissal, the board of directors handled all fiscal matters. The cash receipts register for the provider was not maintained after the dismissal. Previously, group home rents were recorded in the provider's cash receipts, and respite rents were recorded in the cash receipts of a related party, Greater Attleboro Resources Development Group, Inc. (GARD), and transferred to the provider at year end. Group home and respite rents totaling $1,618 were deposited into the provider's bank account but recorded in the related party's cash receipts. At year end, an adjusting entry occurred, crediting the related party rent revenue to the provider, thus in effect doubling that revenue figure.

U. During the last quarter of fiscal year 1986, DMH staff at the respite facility required the former executive director/bookkeeper to sign for cash received. They maintained several signed receipts for payments of rent in May, 1986. Of the $3,909 collected in this period, $1,029 could not be traced either to the provider's cash receipts or to the related party's cash receipts.

V. The provider leased two vehicles through contract #51201. The total cost was $9,142. In a review of lease payments, it was noted that one of the leased vehicles was used by programs not run by the provider. There was no record of compensation or reimbursement for this use.

W. The provider paid $9,600 in rental payments to a related party during fiscal year 1986. A recalculation of related party expenses according to the Rate Setting Commission's guidelines, showed actual allowable expenses of $3,704. The $5,896 variance was a disallowed cost.

X. The former executive director/bookkeeper of the provider was terminated because of a possible abuse of provider and client funds. It was because of this that the auditors were asked to look at client funds from fiscal year 1982 through 1986. The Social Security Administration (SSA) provided SSI payment histories for any client who had lived at the provider's three sites during this five-year period. A review of the 13 client representative payee files, maintained by the former executive director/bookkeeper, revealed the following conditions:

1. All monies issued by SSA were traceable to bank records, with few exceptions noted. These exceptions were instances where the checks were deposited with other monies, which made their absolute verification impossible, due to poor record retention.

2. In the review of expenditures, \$50,042 spent from the clients' bank accounts could not be traced to any form of receipt other than sporadic withdrawal slips for cash. It should be noted that all rental payments made for the 11 clients who resided at provider sites were traceable to money order receipts and the provider's cash receipts.

Y. During our audit review, it was brought to our attention that the provider intended to terminate all contracting with EOHS agencies as of June 30, 1987. Our audit work therefore included a review of the purchase of program sites by the provider and a predecessor corporation.

The provider's predecessor corporation, 77 Inc., purchased two pieces of property in 1978. During a review of the minutes of the Board Meetings, it was determined that state funds may have been used to purchase these properties. The properties in question are, 20 Division Street, North Attleboro, purchased on February 2, 1978, and 121 Taunton Avenue, Norton, purchased on May 30, 1978. (See Finding 19 in audit report)

This finding was discussed fully in a prior audit conducted on 77 Inc. and was referred to the Attorney General's Office at that time.

Z. The financial statements of Bristol County Community Residences, Inc., audited by Daniel Kane and Company, Certified Public Accountants, indicated a \$69,860 fund balance comprised of a \$34,335 Operating Fund and a \$35,525 Plant Fund, as of June 30, 1986. This balance included excess expenses over income of (\$5,182), which accrued during fiscal year 1986.

Total revenues and support received by the provider for this same period amounted to \$512,772, of which \$451,059 was generated by DMH contracts and support. The \$51,145 generated from other fee-for-service payments was from client fees. Additionally, \$10,568 was received from rental and interest income.

EOHS agency revenues and support received by the provider, \$451,059, represented 88 percent of income, while fee payors for service represented ten percent of income. The remaining revenues represented two percent of total income.

EOHS/OAA requested that DMH negotiate an administrative agreement with Bristol County Community Residences, Inc., which addresses findings A, B, C, H, I, J, K, L, M, S, T, U, and X. In addition, the administrative agreement was to address the appropriateness of the recovery of funds from findings P and R, and the recovery of $14,007 from findings Q, V, and W. In addition, DMH Central Office was asked to review findings B and I and determine how these practices were allowed to take place. The AG was asked to review findings E, F, S, U, X, and Y which include review of the disposition of the assets of this corporation upon dissolution and to take appropriate action. Also, EOHS/OCM was requested to verify that EOHS agencies no longer contract with this provider. Furthermore, findings F, N, and O were referred to the IRS for review, and finding D was referred to the SOS for informational purposes.

Auditee Name: Department of Mental Health
Springfield Area Office
1391 Main Street
Springfield, MA 01103

Audit #: 0-602-88

The Springfield Area Office is an area office of the Department of Mental Health. The review of the Social and Rehabilitative Service Procurement and Contracting System was conducted for the period July 1, 1986 to June 30, 1987.

A summary of the findings contained in the review is as follows:

A. The area office did not maintain a cohesive system of internal control which would help to ensure effective and efficient administration of its procurement system. This made verification of the purchase of service system incomplete. The area office lacked coordination among staff responsible for various procurement functions, and maintained poor record keeping practices. The area office responded that it would implement a system which will allow for adequate record keeping and control.

B. During fiscal year 1987, the area office administered 93 purchase of service contracts. A sample of 23 contracts were selected for audit review. Twice during audit fieldwork, a list of materials, most of which were required to document that competitive procurement had been performed, was requested. The following lists the information which the area office either did not maintain or make available:

   1. There were no needs assessments prepared by the three Division Heads for the contract period under review. The area office presented Office for Children need assessments and the Brewster Consent Decree as their needs assessments.

   2. There were no signed justification letters for all contracts awarded on a sole source basis during fiscal year 1987. The auditors found unsigned letters in six contract folders. The total number of sole source awards during the audit period was not obtainable.

   3. Of the 22 sampled contracts awarded on a competitive basis, only 12 Request for Proposal packages were maintained.

   4. There were no letters of Intent to Bid for the sampled contracts

5. There were no lists of potential bidders who would have requested a Request for Proposal.

6. There was no receipt log which would have recorded the date Proposals were received, and the agency submitting the Proposal.

7. Of the sampled contracts, there was no record of bidders which submitted proposals, but were not awarded the contracts.

8. There was no proposal review documentation for each contract selected for testing.

9. There were no prioritized listings of proposal evaluations.

10. There were no notification letters which informed bidders of their acceptance or rejection.

11. There was no verification that any proposals were sent to the Affirmative Action Office and the Human Rights Committee for review.

    Because of the substantial lack of documentation, the auditors were not able to perform a review of the fiscal year 1987 purchase of service system.

EOHS/OAA requested that DMH Central Office submit a written response which addressed findings A and B. An adequate response was received and the case was closed.

Auditee Name:	Department of Social Services Worcester Regional Office 22 Front Street Mid-Town Mall PO. Box 74 Worcester, Mass. 01614
Audit #:	0-601-88

The Worcester Regional Office is the office for Region II of the Department of Social Services. The review of the Social and Rehabilitative Service Procurement and Contracting System was conducted for the period July 1, 1986 to June 30, 1987.

A summary of the findings contained in the review is as follows:

A. The evaluation sheets that were used by the Regional Office to form prioritized lists and select providers were discarded, except for the ones concerning Day Care proposals.

B. The evaluation sheets used to rate the proposals of all minority providers were discarded.

C. The proposals received by the Regional Office were not stamped with the date received.

D. The Regional Office did not provide written notification of contract awards to all bidders who submitted proposals.

EOHS/OAA requested that DSS Central Office submit a written response which addresses findings A through D.

Auditee Name: Dimock Community Health Center, Inc.
55 Dimock Street
Roxbury, Ma. 02119

Audit #: C-568-88

Dimock Community Health Center, Inc., a non-profit corporation, provided comprehensive family health services and alcoholism services during the audit period. The provider contracted with the Department of Public Health and was audited for the year ended June 30, 1984.

A summary of the audit report findings includes:

A. Several weaknesses were noted in the provider's internal controls.

B. The provider's accounting staff did not maintain all the financial records necessary to determine whether contract expenditures were properly made. For the fiscal year ended June 30, 1984, IRS Forms 1096, and 1099, state unemployment tax forms, files on consultants, time sheets, contract billings, bank statements and cash receipts journal were not available for review as required.

C. The provider reported the forgiveness of pre-receivership indebtedness in the amount of $368,296 on its financial statements, but only reported $140,233 on the Rate Setting Cost Report.

D. The provider did not have available for review the most recent licensing survey for the Alcoholism Detoxification and Outpatient Programs.

E. The provider did not have available for review, the contract proposals for the Alcoholism Detoxification, Outpatient and Vocational/Educational Programs.

F. The provider overbilled DPH by $11,119 on the Alcoholism Detoxification Program, and by $396 on the Alcoholism Vocational Training Program. However, the actual payment from DPH could not be determined, as the provider was not able to locate the cash receipts journal to verify the amounts reimbursed.

G. The provider used service lives on fixed assets that did not comply with RSC guidelines. For fiscal year ended June 30, 1984 depreciation expense was overstated by $1,045.

H. The provider never set up a sliding fee scale as part of the billing procedure for services provided by the DPH/DOA programs. The provider always delivered these services free of charge, which was in violation of the DPH/DOA Contract Agreement, Section 4. The provider's Halfway House program did have a sliding fee scale but it was not used.

I. The provider's halfway house program did not have client attendance records available to substantiate the units of service billed.

J. During a review of twenty-five client files it was noted that the following records were missing: three service plans, two discharge summaries, and one set of progress notes.

K. The financial statements of Dimock Community Health Center, Inc., audited by Alexander, Aronson, Finning & Co., indicated a $790,635 fund balance comprised of a ($320,430) general fund deficit, a $263,420 plant fund, and $847,645 restricted fund as of June 30, 1984. This balance included excess revenues over expenses of $517,277 which accrued during fiscal year 1984.

Total revenues received by the provider for this same period amounted to $2,860,987, of which $1,308,174 was generated by DPH and DPW contracts and Medicaid. Of the $504,662 generated from other fee-for-service payments, $257,081 was from patient service fees, private insurance, Medicare, and $247,581 was from various city and local contracts. Of the remaining $1,048,151 received, $434,325 was from bequests, $368,296 from forgiveness of pre-receivership indebtedness, and $245,530 from rental, interest, unrealized loss on investment, and other income.

EOHS agency revenues received by the provider, $1,308,174, represented 46 percent of total income while fee payers for service represented seventeen percent of total income. The remaining revenues represented thirty-seven percent of total income.

EOHS/OAA requested that DPH negotiate an administrative agreement with Dimock Community Health Center, Inc., which addresses findings A through J, and which reviews the appropriateness of recovery of funds from finding F.

Auditee Name: Family Counseling Service (Region West), Inc.
Hispanic Outreach Alcoholism Project
74 Walnut Park
Newton, MA 02158

Audit #: BC-480-88

Family Counseling Service (Region West), Inc. is a non-profit corporation which provided counseling, mental health, and children and family services during the audit period. The provider had contracts with the Departments of Public Health, Mental Health and Social Services and was audited for the fiscal year ended June 30, 1984. A summary of the findings contained in the report is as follows:

A. There were several weaknesses noted in the provider's system of internal controls.

B. The provider's financial statements did not contain a compliance letter or segment giving independent assurance that its recordkeeping practices were in compliance with Attachment C of the DSS Standard Purchase Agreement as required.

C. A Review of the provider's 1984 Attorney General's Form P.C. determined inaccurate figures for revenue and expenses. There was no revenue figure reported, and the expense figure was actually the revenue figure for the year.

D. Because the provider only maintained its records by program, there were several instances noted where the allocation of general ledger expenses did not reflect the same expenses billed to DPH.

E. The provider did not maintain detailed asset lists as required.

F. The provider was not following RSC Guidelines with regard to depreciation of buildings, improvements and fixed assets. It was depreciating its building and improvements faster and fixed assets slower than the useful lives specified in RSC Regulations.

G. A comparison of salaries reported on the RSC 600 Cost Report to the same salaries reported on the IRS forms W-2 determined variances which were not explainable.

H. During the audit period, the provider did not maintain time sheets for its employees. The provider maintained sign-in sheets which were not retained.

I. During the audit period, the provider did not require consultants to list the type of service, the client name, or administrative approval as necessary information on invoices for payment.

J. During the audit period, the provider did not maintain detailed client records for services provided in its Hispanic Outreach Alcoholism Program as required.

K. Creelman & Smith, P.C., EOHS/OAA auditors, were not able to render an opinion on the provider's financial statements because they were not able to obtain detailed workpapers for the provider's fiscal year ended December 31, 1984 financial statements.

L. Subsequent to the end of audit field work, Creelman & Smith P.C., obtained audited financial statements for this provider for the years ended December 31, 1985, 1986, and 1987. A review of these statements noted that the provider had gone from a positive fund balance of $146,853 as of December 31, 1984 to a negative fund balance of ($4,007) as of December 31, 1987.

M. The financial statements of Family Counseling Service (Region West), Inc. audited by McCarthy & Company, indicated a $146,853 fund balance comprised of a ($1,276) general fund, a $43,958 plant fund, and a $104,171 endowment fund as of December 31, 1984. This balance included excess income over expenses of $33,763 which accrued during fiscal year 1984.

Total revenues received by the provider for this same period amounted to $716,121, of which $315,340 was generated from DPH, DMH, and DSS contracts. Other fee-for-service payments totaled $125,965. Additionally, $274,816 was received from the United Way of Massachusetts Bay, grants and contributions, and fund raising.

EOHS agency revenues received by the provider, $315,340, represented 44 percent of income, while other fee payors for service represented eighteen percent of income. The remaining revenues represented thirty-eight percent of income.

EOHS/OAA requested that DPH negotiate an administrative agreement with Family Counseling Service (Region West), Inc., which addressed findings A, D, E, H, I, J, K and L. DSS was requested to negotiate an administrative agreement which addressed finding B. The Public Charities Division of the Department of the Attorney General was asked to review finding C and take whatever action is appropriate. RSC was asked to review findings F and G to determine whether this information has already been noted by RSC, and whether it has an effect on rates of reimbursement to the provider. EOHS Office of Contract Management was asked to review finding L and determine whether the provider should be added to the Vendor Assistance Program. RSC and the Public Charities Division of the Attorney General have adequately responded to all referrals. DPH has submitted a response which is in review.

Auditee Name:	Family Services of Dedham, Inc. 18 Norfolk Street Dedham, MA 02026
Audit #:	BC-572-87

Family Services of Dedham, Inc., operated out-patient alcohol counseling and family counseling programs during the audit period. The provider contracted with the Department of Public Health and the Department of Social Services and was audited for the fiscal year ended June 30, 1984. A summary of the audit findings included the following:

A. There were several weaknesses noted in the provider's system of internal controls.

B. The provider did not maintain the contract proposal for its DPH contract as required.

C. The provider failed to maintain certain time and attendance records.

1. The provider did not maintain authorized time sheets to support the $64,303 reported on its fiscal year 1984 RSC 600 Cost Report as expended in its Alcohol Program.

2. Because the provider did not document employee attendance, the auditors were not able to test the full time equivalents for the DPH and DSS programs maintained by the provider during the audit period. As a result, it was not able to be determined if the programs were properly staffed during the audit period. This condition violated EOHS General Conditions.

D. The provider did not maintain supporting documentation for eleven of twelve months billed to the DPH outpatient alcohol program as required. These unsupported billings totaled $63,431.

E. The provider's fiscal year 1984 RSC 600 Cost Report was incomplete and submitted with inaccurate figures as follows:

1. A comparison of expenditures determined that the RSC 600 Cost Report reported $8,697 more than the provider's general ledger. The executive director stated that this variance was due to a reallocation of expenditures. This condition violated RSC Regulations.

2. The RSC 600 Cost Report did not include the revenues and expenditures associated with the DSS counseling program. This condition was in violation of RSC Regulations.

F. The financial statements of Family Services of Dedham, Inc., audited by Creelman & Smith, P.C., Certified Public Accountants, indicated a $163,607 fund balance as of December 31, 1984 comprised of a $66,745 unrestricted fund, a $71,738 endowment fund, and a $25,124 land, building and equipment fund. This balance included excess income over expenses of $62,337 which accrued during fiscal year 1984.

Total revenues and support received by the provider for this same period amounted to $359,097, of which $103,669 was generated by DPH and DSS contracts. Other fee-for-service payments of $72,919 were from client fees. Additionally, $182,509 was received from contributions, memberships, United Way, and income and gains on sales of investments.

EOHS agency revenues received by the provider, $103,669, represented 29 percent of income, while other fee payors for service represented twenty percent of income. The remaining revenue represented fifty-one percent of income.

EOHS/OAA requested that DPH negotiate an administrative agreement with Family Services of Dedham, Inc., which addressed findings A and B and also addressed the appropriateness of recovery of funds noted in findings C and D. EOHS/OAA requested that DSS negotiate an administrative agreement with the provider which addressed finding C-2. Additionally, EOHS/OAA requested that RSC review finding E to determine what effect, if any, it had on the fiscal years 1986 and 1988 rates of reimbursement to the provider and what administrative action is appropriate. All other findings were referred to DPW for informational purposes. DSS, DPH and RSC have adequately responded to all referrals. The case is closed.

Auditee Name: For Individuals Recovering Sound Thinking, Inc.
4 Intervale Street
Dorchester, Ma. 02121

Audit #: BC-578-87

For Individuals Recovering Sound Thinking, Inc. (FIRST, Inc.) provided services to individuals recovering from drug abuse during the audit period. The provider contracted with the Departments of Public Health and Social Services and was audited for the year ended June 30, 1984.

A summary of the audit report findings includes:

A. Several weaknesses were noted in the provider's internal controls.

B. The auditor was not able to render an opinion because of the provider's poor maintenance of records. The following records were either lost or not available during the audit: the general ledger for the period July 1, 1983 to June 30, 1984, monthly expenditure reports from October 1, 1983 to June 30, 1984, DOR quarterly payroll listings for fiscal year 1984, the accounts receivable ledger, and the cash disbursements journal for December, 1983.

C. The provider listed $41,118 as consultant stipends for fiscal year 1984 on the RSC 600 Cost Report. However, the provider had no record of any IRS Forms 1099 and 1096 being filed for calendar year 1983.

D. The provider's payroll register for the audited fiscal year did not reconcile with the IRS Forms 941. The payroll register was $9,803 higher than the forms 941.

E. The provider's fiscal year 1984 audited financial statements reported cash at $3,282 greater than what was reported on the provider's reconciled bank statement for that same period.

F. The provider's audited financial statements for fiscal year 1984 did not reconcile with the provider's IRS Form 990.

G. The provider's Form P.C. did not reconcile with the IRS Forms 990 and the audited financial statements, since the Form P.C. was incomplete.

H. The financial statements of For Individuals Recovering Sound Thinking, Inc. (FIRST, Inc.), audited by Henry J. Bornhofft Company (currently Seidman and Seidman, B.D.O.), indicated a ($5,243) fund deficit comprised of a ($43,758) cumulative deficit in the current fund, and a land, building and equipment fund balance of $38,515 as of June 30, 1984. This balance included excess expenses over income of ($96,502) which accrued during fiscal year 1984.

Total revenue received by the provider for this same period amounted to $484,446, of which $396,143 was generated by Department of Public Health and Department of Social Services contracts. The $31,075 generated from other fee-for-service payments was client fees. Additionally,$57,228 was received from a Community Development Block Grant and miscellaneous income.

EOHS agency revenues received by the provider, $396,143, represented 82 percent of income, while other fee payers for service represented six percent of income. The remaining revenues represented twelve percent of income.

EOHS/OAA requested that DPH negotiate an administrative agreement with For Individuals Recovering Sound Thinking, Inc., that addresses findings A, B, D, E, and F. The AG was requested to review finding G and take whatever action is deemed necessary. The EOHS/OCM was requested to confirm that the vendor is on the Vendor Assistance list. In addition, finding C was referred to the IRS to take whatever action is deemed appropriate. An appropriate response was received from the Attorney General's Public Charities Division.

Auditee Name: Franklin County Mental Health Association, Inc.
3 Prospect Street
Greenfield, Ma. 01301

Audit #: 0-179-86

Franklin County Mental Health Association, Inc., a non-profit corporation, provided a variety of services to the residents of Franklin County, during the audit period. The provider contracted with the Department of Mental Health and the Department of Social Services and was audited for the year ended June 30, 1986. A summary of the audit findings includes the following:

A. There were several weaknesses noted in the provider's internal controls.

B. On several occasions, information requested by the auditors during audit field work was not available. These included all lease agreements, the Internal Revenue Service exemption letter that would identify them as having tax-exempt status and proposals for all contracts.

C. The provider's financial statements indicated that the organization maintained $10,410 in assets belonging to the Commonwealth. The provider could not identify the assets in question.

D. The provider's audited financial statements carried a liability "Due to Grantors" of $7,192, of which $3,774 accrued during fiscal year 1986. This represented overcharges to DMH, which occurred because the total budgeted percentage of allowable payroll tax and fringe benefits was billed instead of actual expenses incurred in cost reimbursement contracts for these items.

E. The provider's RSC 1100 Cost Report for FY 1986 prepared by the business manager, originally due to RSC by September 30, 1986, was submitted on March 10, 1987. The report contained numerous errors and omissions which could not be reconciled with the providers books and records.

F. The provider's RSC 1100 Cost Report stated a depreciation expense of $500 on assets owned by the Commonwealth.

G. The provider's books and records did not identify all revenue and expenses by contract as required

H. The provider's reconciled bank statement as of June 30, 1986, revealed a cash overdraft of ($51,724). The provider's current financial statements for the fiscal year ending June 30, 1988, prepared by the provider's auditors contain the following statement:

> "As shown in the financial statements, the company incurred a net loss of $46,580 during the year ended June 30, 1988, and, as of that date, the company's current liabilities exceeded its current assets by $97,350 and its total liabilities exceeded its total assets by $86,500. These factors indicate that the company may be unable to continue in existence."

I. The provider underspent by $9,615, in the personnel positions funded in one DSS unit rate contract, with a maximum obligation of $23,920. In addition, the provider also underspent on payroll taxes and fringe benefits by a total of $18,313.

J. The former full-time business manager was replaced as of August 31, 1986. He received $8,625 through the payroll account between September 1, 1986 and the end of audit field work, on March 10, 1987. There were no time sheets or other available documentation in the agency's books and records to support continued salary and employer contributions of 92% to a family health insurance plan.

K. The provider's staff attempted to identify services not billed in an effort to recover revenues through late billings. Because many of the late billings were for Medicaid, a high percentage of denials were received because of untimely and inaccurate data.

L. The provider identified one program on the RSC 1100 Cost Report as "Other". This program contained revenue and expenses applicable to several different programs including services to youths, elders, and counseling.

M. The provider was unable to provide the auditors with a copy of the Partnership Clinic Provider Agreement.

N. The provider had not filed the MHC-1 Cost Report for FY86 with RSC as of March 10, 1987.

0. The provider was unable to provide a copy of the Use of Space Agreement as required.

P. The provider was unable to provide a copy of IRS form 1096 for 1986, and the 1985 copy that was located was not signed.

Q. The provider's copies of the Department of Mental Health and Department of Social Services contracts were undated and unsigned by a representative of the funding agency.

R. The provider did not report the actual service units provided to clients during the fiscal year on the RSC 1100 Cost Report.

S. The financial statements of Franklin County Mental Health Association, Inc., audited by Raverta, Sullivan, and Reynolds, CPA, P.C. indicated a $28,844 fund balance comprised of a $140 operating fund and a $28,704 plant fund as of June 30, 1986. This balance included excess expenses over income of ($11,163) which accrued during fiscal year 1986.

   Total revenues and support received by the provider for this same period amounted to $1,704,068, of which $1,083,643 was generated by the Departments of Mental Health and Social Services contracts and support. Of the $614,671 generated from other fee-for-service payments, $6,872 was from Department of Elder Affairs contracts and $607,799 from third party payors. Additionally, $5,754 was identified as miscellaneous and investment income.

   The EOHS agency revenues and support received by the provider, $1,083,643, represented 63.6 percent of total income, while other fee payers for service represented thirty-six percent of total income. The remaining revenues represented less than one percent of total income.

EOHS/OAA requested that DMH negotiate an administrative agreement with Franklin County Mental Health Association, Inc. which addresses findings A, B, C, G, H, J, K, M, O, P, and Q. In addition, DMH was requested to recover funds totaling $7,192 identified in finding D and $18,313 identified in finding I. The RSC was requested to review findings E, F, L, N, and R. and take whatever action is deemed necessary. The DSS was requested to negotiate an administrative agreement with FCMHA, Inc. which addresses findings G and Q, as well as the appropriateness of recovery of funds totaling $9,615, that were identified in finding I. An appropriate response was received from the Rate Setting Commission.

Auditee Name: Franklin Medical Center
164 High Street
Greenfield, Ma. 01301

Audit #: C-582-88

The Franklin Medical Center, a non-profit corporation, through its Beacon Programs, offered a full complement of prevention, treatment and education services regarding alcohol and drug related problems during the audit period. The provider contracted with the Department of Public Health and was audited for the fiscal year ending June 30, 1986. A summary of the audit report findings includes the following:

A. There were several weaknesses noted in the provider's internal controls.

B. The provider had a September 30th year end. All of the contracts that the provider had with the Department of Public Health, for the period under audit, had a fiscal year ending June 30, 1986. In order to obtain program costs per the general ledger for the audit period, it was necessary to reconcile figures from two contract years. In addition, a separate profit center was not maintained in the general ledger for the Prevention contract.

   Fringe benefit, space usage and overhead costs were not allocated to the various profit centers in the general ledger, as required.

C. In reviewing personnel files and backup documentation for salary expense, 52 employee time cards were examined. Of the 52 time cards examined, 15, or 29%, did not have supervisory signatures on them authorizing the hours submitted.

D. Thirteen files were examined from the provider's Outpatient Contract. One file stated that the client was to pay a $2 sliding fee per visit, however, the contract invoice reported $10 per visit. In two other instances where client fees were reported on the contract invoice, it was not possible to verify that the fees charged were appropriate, since there were no financial statements in the clients' files.

E. A review of the provider's Driver Alcohol Education Contract revealed that it was not possible to verify which clients paid for the services themselves versus which clients should have been charged to the contract. Client payments, totalling $63,684, were remitted through the courts and then forwarded to the hospital in lump sums.

F. While reviewing the provider's Detoxification Contract, three of the twelve files examined indicated that the client had insurance coverage, but no insurance billing was evident. Two of the three clients were eligible for Medicaid; however, personnel at the clinic stated that at that time they were not billing Medicaid, as they felt the State contract and Medicaid were really the same funding sources.

G. While testing the provider's client fees and food stamp collections, it was found that no procedures for billing or collecting accounts receivable existed, as required.

H. A review of the provider's client files revealed many deficiencies. Often, required items were missing, such as the following: after care monitoring letters, ninety-day follow-ups, evidence of physical or medical records, and patient financial discharge sheets.

I. The financial statements of Franklin Medical Center, audited by Coopers & Lybrand, indicated a $15,078,120 fund balance comprised of a $11,845,619 general fund, a $33,099 restricted fund and a $3,199,402 endowment fund, as of September 30, 1986. This balance included excess income over expenses of $538,407 which accrued during fiscal year 1986.

Total revenues received by the provider for this same period amounted to $20,139,696, of which $631,457 was supported by DPH contracts. Other service revenues totalled $18,830,000. Additionally, $678,239 was received from gifts, endowments, trusts, investments and real estate rentals.

EOHS agency revenues received by the provider, $631,457, represented three percent of income, while other service revenues represented ninety-four percent of income. The remaining revenues represented three percent of income.

EOHS/OAA requested that the DPH negotiate an administrative agreement with Franklin Medical Center, which addresses findings A thru H. In addition, all findings were referred to the RSC for informational purposes. An appropriate response was received from DPH and the audit was closed.

Auditee Name: W.C. Gaebler Children's Center
475 Trapelo Road
Waltham, Massachusetts 02154

Audit #: 88-1046-1

The W. C. Gaebler Children's Center, a facility within the Department of Mental Health was audited by the Auditor of the Commonwealth for the period July 1, 1986 to June 30, 1987. A summary of audit findings contained in the report is as follows.

A. The Auditor noted that the only supporting documentation for employee payroll was the reporting units' work summary sheets, which lacked employee signatures and supervisory approvals. This same finding was also noted in a prior audit report, #85-1046-1. The prior audit report recommended that the work summary sheets be signed by the employee and the supervisor. However, the Center disagreed with the Auditor's recommendation, stated that its payroll costs accurately reflected the activities of its personnel, and therefore felt that signatures were unnecessary.

B. The audit noted that the Center expended $15,890 for expenses incurred by other DMH facilities. The Center received benefits from other facilities, such as electricity, water, medication, outside maintenance of the grounds, and telephone service.

C. A review of consultant contracts revealed that documentation provided with bills was inadequate, in that attendance calendars or daily logs were not provided as required

D. The principal of a corporation that held a contract for psychiatric services to the Center was an employee of another state facility. The conflict of interest statement attached to the contract was incomplete.

E. DMH estimated the Center's revenue for fiscal year 1987 at $1,008,603; however, the Center's actual revenue was only $10,025. The DMH figure was based on the assumption that the Center would receive Medicaid certification for at least six months of the fiscal year, but it did not receive certification. In the FY 89 budget, funds were appropriated to hire staff to meet certification. However, due to budget problems, staff had not been hired.

EOHS/OAA requested that DMH submit a written response describing actions taken to address the findings A, B, C, and E. In addition, SEC was asked to review finding D and take whatever action is deemed appropriate.

Auditee Name: Gardner-Athol Area Mental Health Association, Inc.
208 Coleman Street
Gardner, MA 01440

Audit #: 0-579-88

Gardner-Athol Area Mental Health Association, Inc., a non-profit corporation, offered vocational and residential services during the audit period. The provider contracted with the Department of Mental Health, the Department of Public Health, the Massachusetts Rehabilitation Commission and the Massachusetts Commission for the Blind and was audited for the fiscal year ended June 30, 1986. A summary of the audit findings includes the following:

A. There were several weaknesses noted in the provider's system of internal control.

B. The provider's fiscal year 1986 financial statements did not contain a statement of functional expenses as required by the AICPA Industry Audit Guide for Audits of Voluntary Health and Welfare Organizations.

C. The provider's fiscal year 1986 financial statements understated revenue and occupancy expenses by $5,098. The provider maintained an alcoholism outpatient program in facilities operated by Henry Heywood Hospital. The hospital provided space for the program, performed its third-party billing, and retained 60% of that amount as a rental fee. Because the provider felt that this transaction had no net effect, third-party revenue and occupancy expenses were understated by $5,098 on the financial statements.

D. The provider did not withhold and match social security withholdings for 23 and 46 client employees during calendar years 1985 and 1986, respectively. As a result, the provider underpaid the federal government $2,318 in 1985 and $4,610 in 1986. This violated the Federal Insurance Contribution Act.

E. The provider's fiscal year 1986 audited financial statements reported that the provider received excess revenue over expenses of $35,688. However, the provider's RSC 1100 Cost Report, Schedule 22, reported that the provider received $141,033 excess revenue over expenses in six programs supported by DMH cost reimbursement contacts. Of this amount, $110,397 was attributable to payroll, $22,188 was attributable to payroll taxes and fringe benefits, and $8,448 was attributable to all other categories.

This condition occurred because some programs provided little or no services. The provider's Edgell Street staffed apartments program, funded by two DMH cost reimbursement contracts, did not operate during the audit period due to a law suit. In addition, the Training Employment Program II, funded by two other DMH cost reimbursement contracts, operated at 7% of expected capacity levels. The employees being paid through these contracts were assigned to work at other programs that were being reimbursed through unit rate contracts. The provider stated that DMH was aware of this practice.

F. The salary paid to the executive director for fiscal year 1986 was $49,940. This amount was $9,940 higher than the amount budgeted on DMH contracts. The provider felt that the salary level was acceptable because the Commonwealth only funded a portion it. However, the Procurement and Contracting Manual for Social and Rehabilitative Services for Fiscal Year 1986, required that all budget entries be for total program costs, including costs which would not be funded by the Commonwealth.

G. A provider employee received the free use of a car at the provider's expense. The $5,100 cost for leasing the car, and an undetermined cost for gas and repairs, was not included on the employee's W-2 Wage and Tax Statement.

H. During fiscal year 1986, the provider paid $12,256 for life insurance on its five highest paid employees. The provider was a 50% beneficiary on these policies. This benefit was not offered to all provider employees as required by RSC Regulations. The provider stated that it was to indemnify the agency in the case of death of key personnel.

I. During fiscal year 1986, the provider made transfers of funds and cash advances to a related party, Gardner-Athol Area Mental Health Association Transit, Inc. (GAAMHA Transit, Inc.). These transactions were not reported on the provider's RSC 1100 Cost Report, the Attorney General's Form PC, or the IRS Form 990, as required.

The provider's board of directors and its executive director formed GAAMHA Transit, Inc. in 1985. The related party's purpose was to transport the provider's clients. GAAMHA Transit, Inc.'s board of directors consisted, in part, of four board members of the provider and its executive director. All legal and financial record keeping for GAAMHA Transit, Inc. was done by the provider's fiscal director, who also performed these tasks for Gardner-Athol Area Mental Health Association Realty Corp., Inc. (GAAMHA Realty Corp., Inc.). GAAMHA Realty Corp., Inc. was formed in 1977 to hold title to property at which the provider maintained programs and shared consolidated financial statements with the provider.

The failure to report transactions between related parties violated the requirements of the Attorney General's Form PC, the IRS Form 990 and the RSC 1100 Cost Report.

J. During the audit period, the provider paid Gardner-Athol Area Mental Health Association Realty Corp., Inc., a related party, $7,200 for a computer, $1,250 for a fire escape, and $21,800 for rent on three properties. These payments exceeded the cost incurred by the related party by $4,452, $1,000 and $8,628, respectively. These costs were disallowed pursuant to RSC Regulations.

K. The provider did not issue IRS Forms 1099 to seven individuals who earned a total of $28,982 during calendar years 1985 and 1986, as required by the IRS Code.

L. The provider had a fire in the program site located at 35 Catherine Street, Gardner, Massachusetts. Over one year and four months later, the damage caused by the fire had not been repaired, although the program continued to operate at that location.

M. The financial statements of Gardner-Athol Area Mental Health Association, Inc., audited by Venning and Jacques, P.C., Certified Public Accountants, indicated a $168,338 fund balance as of June 30, 1986. This balance included excess income over expenses of $35,688 which accrued during fiscal year 1986.

Total revenues and support received by the provider for this same period amounted to $2,024,549, of which $1,693,200 was generated by DMH, DPH and MRC contracts and support. Of the $317,872 generated from other fee-for-service payments, $94,818 was from client fees, $4,310 from third-party payors, and $218,744 from subcontract income. Additionally, $13,477 was received from donations, the United Way and investment income.

EOHS Agency revenues received by the provider, $1,693,200, represented 84 percent of income, while other fee payors for service represented slightly less than sixteen percent of income. The remaining revenues represented less than one percent of total income.

EOHS/OAA requested that DMH negotiate a written administrative agreement with Gardner-Athol Area Mental Health Association, Inc., that addresses findings A, B, C, D, F and L in accordance with the provider's response as contained in the report. In addition, the administrative agreement was to address the recovery of $141,033 in funds noted in finding E. DMH Central Office should address allegations concerning area office contracting practices noted in finding E. In addition, RSC was requested to review findings G, H, I and J to determine what effect, if any, they had on the provider's rate of payment and to take whatever administrative actions it deems appropriate. The Attorney General's Division of Public Charities was asked to review finding I and take whatever action it deems appropriate. Findings D, G, I and K were been referred to the Internal Revenue Service, and finding K was referred to the Massachusetts Department of Revenue. All findings were referred to the Department of Public Health, the Massachusetts Commission for the Blind and the Massachusetts Rehabilitation Commission for informational purposes. RSC, IRS and the Public Charities Division of the Attorney General have adequately responded to all audit referrals.

Auditee Name:	Great Brook Valley Comprehensive Child Care Services, Inc. 160 Tacoma Street Worcester, MA 01605
Audit #:	O-605-88

Great Brook Valley Comprehensive Child Care Services, Inc., a non-profit corporation, provided child care services for children through age fourteen during the audit period. The provider contracted with the Department of Social Services and was audited for the year ended June 30, 1987.

A summary of the audit findings includes the following:

A. There were several weaknesses noted in the provider's system of internal control.

B. A review of the provider's financial statements for the year ending June 30, 1987, prepared by Singer & Lusardi, Certified Public Accountants, revealed the following deficiencies:

1. The financial statements did not include, as in-kind revenue and expense, the value of occupying property owned by the City of Worcester at no charge. The omission of this in-kind revenue and expense on the Income Statement understated the cost of operation of the provider.

2. The audited schedule of support, revenue and expenses of the operating fund, by program, (which served as its statement of functional expenses) did not segregate management and general expenses, as required..

3. The provider's property, plant, and equipment was comingled within its operating fund. The provider also received donations restricted for capital improvements; these donations were stated separately from property, plant and equipment. The AICPA Industry Audit Guide, Audits of Voluntary Health and Welfare Organizations, requires that the provider maintain a property, plant and equipment fund which combines capital improvement donations and which is reported separately from operating funds.

C. The provider's fixed asset listing did not disclose the source of funds used to purchase the assets, or the serial number applicable to each asset. The list also did not identify fixed assets purchased prior to July 1, 1986, as required. During fiscal year 1987, $9,343 of fixed assets were purchased through a DSS contract.

D. The provider failed to issue IRS Forms 1099, as required, to four individuals who served as substitute teachers and were paid over $600 as non-employees during calendar year 1987. The four earned $4,360 collectively.

E. The financial statements of Great Brook Valley Comprehensive Child Care Services, Inc., audited by Singer & Lusardi, Certified Public Accountants, indicated a $98,845 fund balance, comprised of a $70,933 operating fund, and a $27,912 facilities improvement fund, as of June 30, 1987. This balance included excess income over expenses of $31,917, which accrued during fiscal year 1987.

Total revenues received by the provider for this same period amounted to $1,077,453, of which $894,527 was supported by DSS contracts. Of the $145,053 generated from other fee-for-service payments, $53,867 was from the Department of Education, Bureau of Nutrition, $50,238 from the United Way, and $40,948 from client fees. Additionally, $37,873 was received from contributions and interest income.

EOHS agency revenues received by the provider, $894,527, represented 83 percent of total income, while other fee payors for service represented thirteen percent of total income. The remaining revenues represented four percent of total income.

EOHS/OAA requested that DSS negotiate an administrative agreement with Great Brook Valley Comprehensive Child Care Services, Inc. which addresses findings A, B, C, and D. The Massachusetts Board of Public Accountancy was asked to review finding B and take whatever action is deemed appropriate. All findings were referred to RSC and DOE for informational purposes.

Auditee Name: Hillcrest Educational Centers, Inc.
224 Housatonic Street
P.O. Box 794
Lenox, MA 01240

Audit #: 0-453-87

Hillcrest Educational Centers, Inc., a non-profit corporation, operated four residential programs for mentally retarded and emotionally disturbed youths, male and female, during the audit period. The provider contracted with the Departments of Mental Health, Social Services and Youth Services and was audited for the period ended June 30, 1986. A summary of the audit findings contained in the report is as follows:

A. There was one weakness noted in the provider's internal controls.

B. Numerous deficiencies were noted in the provider's fiscal year 1986 RSC 1100 Cost Report, including the following:

   1. The provider's loan of $10,000 to an employee was not clearly disclosed on either Schedule #1, Balance Sheet Assets, or Schedule #27, Related Party Disclosure. The provider stated in its response that this loan had been repaid with interest.

   2. Schedule #2, Operating Fund Expenses, had administrative and management expenses incorrectly allocated to program expenses. Total administrative and management expenses should have been $1,153,057 instead of the $849,966 reported.

   3. Salaries stated on Schedule #4, Staff Salaries and Wages, were not in agreement with any of the following: Schedule 10, Highest Paid Employees, the IRS Form 990, or the provider's payroll journal. The provider responded that these discrepancies were due to accrual of payroll, vacation and sick time. However, using these items, the auditors were still not able to reconcile the variances noted.

   4. The salary of the Assistant Executive Director was incorrectly reported as that of the Business Manager's position, upon the recommendation of the consulting firm which prepared the report. An individual paid consultant performed the function of the Business Manager. In its response, the provider stated that the employee cited was in fact the business manager. However, internal documents and statements to the auditors identified this individual as the Assistant Executive Director.

5. Schedule 10A contained the following conditions.

In question #2, the provider reported that fringe benefits were equally available to all employees. However, some employees were reimbursed 100% for tuition while others were only reimbursed 50% for tuition.

In question #3, the provider's list of additional compensation did not include the payment of moving expenses and a full year car lease. The provider responded that the car lease was reported and that the moving expense did not have to be reported. The auditor's calculation determined that the full lease cost had not been disclosed, and it was the auditor's opinion that the moving expenses should have been treated as a fringe benefit to comply with IRS Regulations.

6. Schedule #27 did not disclose fee-for-service payments for employee physicals paid to Hillcrest Hospital, Inc., a related party.

7. The total expenses for Management and General as reported on the Rate Setting Commission 1100 Cost Report, $849,966, did not agree with those expenses as reported on the audited financial statements, $725,062.

All of the these findings were in violation of RSC Regulations and the EOHS General Conditions, Article VI, Section A.

C. The provider's IRS Form 990 prepared by Peat Marwick Main & Company, Certified Public Accountants, contained the following discrepancies:

1. The provider only disclosed one of its six related parties in Part VII, Other Information, Line 80.

2. The provider did not disclose a loan to the Assistant Executive Director in the receivables due from officers, directors, trustees, and key employees in Part V, Balance Sheet, Line 50. It was listed in the accounts receivable figure. The provider's CPA responded that it did not believe that this employee was a "key employee" as defined by the Instructions to the IRS Form 990.

3. The amount listed on Schedule A, Part II, Compensation for Professional Services, was in disagreement with the provider's internal financial records and the fiscal year 1986 RSC 1100 Cost Report.

D. The following conditions existed on the provider's fiscal year 1986 Attorney General's Form P.C.:

1. The provider did not disclose related party transactions for items c, d, f and h of Question 10. In its response, the provider contended that the Instructions to the Form P.C. stated that this question did not have to be filled out if the Schedule A of the IRS Form 990 was complete. However, the provider responded to Question #10 in the negative. Answering the questions in this manner could result in a person reviewing the Form P.C. and concluding that no related party relationship existed, and therefore not reviewing the IRS Form 990. The provider's CPA responded that they did not believe that disclosure was required, because the individual was not a "key employee".

2. The amount that the provider reported for compensation paid to consultants for one individual did not agree with internal financial records or the fiscal year 1986 RSC 1100 Cost Report.

E. The provider failed to issue IRS Forms 1099 to several service providers who earned in excess of $600 during 1985 and 1986. A total of $173,278 was paid to five service providers without a corresponding Form 1099 being issued during calendar year 1985. A total of $94,992 was paid to six service providers without a corresponding Form 1099 being issued for calendar year 1986. This condition violated the IRS Code.

F. The following conditions were noted in the provider's fiscal year 1986 financial statements prepared by Peat Marwick Main & Company, Certified Public Accountants:

1. The Schedule of Functional Expenses did not allocate revenue and expenses to the provider's four programs. The provider's CPA responded that this was done because the provider performed only one service. However, the fiscal year 1986 RSC 1100 Cost Report indicated that the provider operated four programs.

2. The expenses associated with restricted grant revenues of $55,428 were not identified and were not included with total program costs on the Statement of Revenues and Expenses. These expenses were presented in the Statement of Changes in Fund Balance as Total Grant Expenditures.

3. The provider's financial statement cash balance was overstated by $5,000. The CPA responded that this amount was immaterial for the provider's financial statements. The overstated amount was 7% of the cash balance and in the opinion of the auditor represented a significant risk level for such a sensitive account.

   Condition #1 and #2 were not in compliance with The AICPA Industry Audit Guide for Audits of Voluntary Health and Welfare Organizations, and the DSS Guidelines for Financial and Compliance Audits. The provider's CPA disagreed with the use of the above-noted audit guide. Condition #3 was not in compliance with generally accepted auditing standards as outlined in Statements on Auditing Standards #16, as superceded by #53, regarding the auditors responsibility to detect and report errors, and also, Statement On Auditing Standards #47, regarding audit risk and materiality in conducting an audit.

G. The provider did not include the $1,700 payment of an employee's moving expenses on that employee's W-2 for calendar year 1985. This violated the IRS Code.

H. The provider did not require its salaried employees to submit signed time sheets for hours worked. It was the practice of the provider to pay overtime to salaried employees who worked in excess of 40 hours per week. Salaried employees' compensation for regular and overtime pay made up 53% of the provider's payroll expenditures, therefore, $2,869,516 in payroll expenditures were not documented by signed time sheets.

I. The provider did not maintain a signed agreement for a $221,152 loan it received from a related party, Hillcrest Hospital, Inc., as required.

J. During fiscal year 1986, Hillcrest Educational Centers, Inc. assumed the provision of services on four campuses previously owned and operated by Avalon Schools, Inc. A 35% rate increase was awarded by the Rate Setting Commission for these established programs for fiscal year 1986. The rate was then further increased by 10.4% for fiscal year 1987. These rate increases provided 45.4% more revenues to this provider with no increase in clients. In light of the following conditions, the rate of increase to Hillcrest Educational Center, Inc. was questionable based on a review of documented reasonable operating costs as reported in the fiscal year 1986 RSC 1100 Cost Report.

Because fiscal year 1986 was the first year of operation for this provider, rates paid were based on a combination of the historical costs of the previous provider, certain additional costs, and projections of programmatic changes. Rates paid for fiscal years 1987 and 1988 were based on inflation factors set by the Rate Setting Commission. The fiscal year 1986 cost report was not used to set future year rates, however, the following conditions are cited for review by the Rate Setting Commission. A review of expenditures listed on the fiscal year 1986 RSC 1100 Cost Report revealed the following non-reimbursable costs:

1. The provider paid the cost for life insurance and the lease of a car totaling $5,019 for the Executive Director.

2. Three employees had $8,795 of tuition payments entirely funded by the provider in variance with its personnel policies, which allowed 50% up to a maximum of $400 per semester. This resulted in overspending of $6,248.

3. Expenditures of $236,987 were incurred for legal services. Of this amount, retainer fees totaling $32,000 were paid to two attorneys. Actual services rendered for these retainer fees were undocumented. Both lawyers submitted invoices for additional amounts, which listed dates and services. One attorney, a board member of the provider, received $30,000 of this total.

4. A Christmas bonus of $200 was paid to each employee. This expenditure totalled $60,488.

5. Expenditures of $4,293 were made by the organization for staff parties.

6. The provider paid $1,700 for the moving expenses of the Assistant Executive Director when he was hired in October, 1985. This expenditure was not listed as an additional fringe benefit on the employee's contract. The expense was reported as "travel and conference" on the RSC 1100 Cost Report.

7. Bad Debt expenses totaling $15,896 were included in program costs, under Management and Other costs, on the RSC 1100 Cost Report. These costs should have been reported under Bad Debts in Schedule #2.

8. The Executive Director was reimbursed $5,785 for all expenses including meals, tips, lodging and miscellaneous expenditures. Expense vouchers which listed dates and amounts expensed were accompanied by a minimal number of original receipts.

   A copy of the Executive Director's private contract was not made available for review, as requested, to determine if all expenses were to be reimbursed by the provider.

9. The provider did not maintain an information file on consultants which should have contained resumes, social security numbers, professional certification, and an hourly rate for service.

   In addition, a sample test of the documentation of consultants paid to provide administrative and programmatic services revealed that the provider routinely reimbursed consultants for travel, parking and tolls in addition to their hourly rates. There was no itemized documentation provided which identified location of service, staff or client served, and specific dates of service, nor were bills signed by consultants. A total of $144,633 in disbursements was determined to be undocumented as a result of the sample taken.

K. The provider was the representative payee for eight clients' Supplemental Security Income (SSI). These funds were held in a non-interest bearing group account. As of June 30, 1986, the balance in this account was $16,864. As of February 28, 1987, the balance was $22,043. This condition violated DMH Regulations.

L. The provider's copies of DMH, DSS and DYS contracts it maintained were not signed by a representative of the funding agency. This condition violated Attachment I of the Procurement and Contracting Manual for Social and Rehabilitative Services.

M. The financial statements of Hillcrest Educational Centers, Inc. audited by Peat Marwick Main & Company, Certified Public Accountants, indicated a fund balance of $234,468 as of June 30, 1986.

Total Revenues received by the provider for this same period amounted to $7,914,337, of which $1,810,369 was supported by DMH, DSS and DYS contracts. Of the $6,099,494 generated from other fee-for-service payments, $529,501 was from the Department of Education, $1,455,774 was from Chapter 766 tuition, $39,009 was from Massachusetts Grant 89-313, $16,718 was from New York State Grant 89-313, $4,003,281 was from client fees, and $55,211 was from Avalon School, Inc. Additionally, $4,474 was received from donations, fund-raising, bequests and interest income.

EOHS agency revenue received by the provider, $1,810,369, represented approximately 23 percent of income, while other fee payors for service represented seventy-seven percent of income. The remaining revenues represented less than one percent of income.

EOHS/OAA requested that DSS negotiate an administrative agreement with Hillcrest Educational Centers, Inc. which addressed findings A, C-3, F, H, I and L, and addresses the appropriateness of recovery of the funds in finding J-9. DMH was asked to negotiate an administrative agreement with the provider which addressed finding K. RSC was asked to review findings B and J-1 through J-8 to determine if this information has already been taken into account when setting rates for this provider. In addition, the Department of the Attorney General, Division of Public Charities was asked to review finding D and take whatever action was appropriate. Findings C-1, C-2, E and G have been referred to the Internal Revenue Service.

Auditee Name:	Independence Associates, Inc. 55 City Hall Plaza Brockton, MA 02401
Audit #:	C-613-88

Independence Associates, Inc., a non-profit corporation, provided independent living and personal care services during the audit period. The provider contracted with the Massachusetts Rehabilitation Commission and was audited for the fiscal year ended June 30, 1987. A summary of the audit findings includes the following:

A. Several weaknesses were noted in the provider's system of internal control.

B. The provider used service lives for depreciation of assets which were in violation of the Instructions for Completing Independent Living Service Centers Reporting Forms. This resulted in an overstatement of depreciation expenses of $1,247.

   2. The provider expensed computer equipment purchased in 1987 for $3,650. This equipment should have been capitalized over its useful life according to Rate Setting Regulations.

C. The financial statements of Independence Associates, Inc. audited by Robert Sharkansky & Company, CPAs, indicated a $33,119 fund balance as of September 30, 1987. This balance included excess expenses over revenue, support and grants of ($45,990) which accrued during fiscal year 1987.

   Total revenue, support and grants received by the provider for this same period amounted to $3,334,429, of which $184,046 was generated by MRC contracts, and $2,999,502 was generated by MRC, MCB and Medicaid Personal Care Assistance funds, and MRC and MCB fee-for-service payments. Of the $140,656 generated from other fee-for-service payments, $136,289 was from Title XIX funds, and $4,367 was from city and private grants. Additionally, $10,225 was received from contributions and interest income.

   EOHS agency and Medicaid income received by the provider, $3,183,548, represented 95 percent of income, while other fee payors for service represented approximately four percent of income. The remaining revenues represented less than one percent of income.

EOHS/OAA requested that MRC negotiate an administrative agreement with the provider which addressed finding A. RSC was asked to review finding B and notify EOHS/OAA whether it was taken into account for rate calculation, and to take whatever administrative action was appropriate. In addition, all findings were referred to MCB and DPW for informational purposes. RSC has adequately responded to all audit referrals.

Auditee Name:	Infants and Other People, Inc. 464 Tremont Street Boston, Ma. 02116
Audit #:	C-592-88

Infants and Other People, Inc. a non-profit corporation, provided a variety of day care programs during the audit period. The provider contracted with the Department of Social Services and was audited for the year ended June 30, 1986.

A summary of the findings contained in the audit report included the following:

A. Several weaknesses were noted in the provider's internal controls.

B. The provider could not supply a copy of the RSC 1100 Cost Report, the RSC 600B Budgets, or the Massachusetts WR-1 Wage Reports, for the year ended June 30, 1986.

C. The provider did not maintain a detailed equipment and furniture inventory listing. Fixed assets were not separated into categories identifying the sources of funds with which they were purchased.

D. The provider had billing errors on five of the six contracts tested. The provider could not document attendance for a total of $1,704 worth of units billed, during the periods tested as required.

E. The provider's financial statements did not contain a Statement of Functional Expenses, as required.

F. The provider's financial statements did not contain a compliance letter giving independent assurance that the provider's recordkeeping practices complied with Attachment C of the DSS Standard Purchase Agreement as required.

G. The financial statements of Infants and Other People, Inc., audited by Deloitte, Haskins and Sells, Certified Public Accountants, indicated a fund balance of $57,864 as of August 31, 1986. This balance included excess income over expenses of $5,782 which accrued during fiscal year 1986.

Total revenue received by the provider for this same period amounted to $654,102, of which $531,261 was generated by DSS contracts. Of the $110,607 of revenue generated from other fee-for-service payments, all was from patient fees. The remaining $12,234 was generated from contributions and fund-raising income.

EOHS agency revenues received by the provider, $531,261, represented 81 percent of total income, while other fee payers for service represented seventeen percent of total income. The remaining revenues represented two percent of total income.

EOHS/OAA requested that DSS negotiate an administrative agreement with Infants and Other People, Inc. which addresses findings A, B, C, E, and F. In addition, DSS was asked to review the appropriateness of the recovery of funds noted in finding D.

Auditee Name:	Jack N' Jill Kindergarten and Child Care Center, Inc. 39 Station Street Quincy, Ma. 02169
Audit #:	0-512-87

Jack N' Jill Kindergarten and Child Care Center, Inc., a for-profit corporation, provided child care programs during the audit period. The provider contracted with the Department of Social Services and the Department of Public Welfare and was audited for the year ended June 30, 1986.

A summary of the audit report findings includes the following:

A. There were several weaknesses noted in the provider's internal controls.

B. The provider's financial statements did not contain a compliance statement nor was a separate letter sent from the provider's certified public accountant giving independent assurance that the provider's financial record keeping practices were in compliance with the standard DSS purchase agreement Attachment C, as required.

C. The provider's financial statements did not contain a balance sheet prepared on a comparative basis, as required.

D. The provider's financial statements did not contain a note disclosing a related party transaction for the rental of property.

E. The provider's accounting system did not include a general ledger, as require.

F. The provider's financial and accounting records were not maintained in a manner that allowed for the tracing of revenues and expenses to individual contracts, as required.

G. The provider failed to issue an IRS form 1099 for $4,607 in miscellaneous income during calendar year 1986, as required.

H. Documentation was not available to support $2,706 paid to one consultant who provided services as a relief worker during fiscal year 1986.

I. The provider indicated on Schedule 12 of the RSC 1100 Cost Report that the facility used by its programs was not leased from a related party. In fact, the facility was owned by a realty trust in which the provider's administrator and his mother were trustees.

J. The provider did not maintain a detailed listing of fixed assets, as required.

K. The financial statements of Jack N' Jill Kindergarten and Child Care Center, Inc., audited by Donald J. Gustafson, Certified Public Accountant, P.C., indicated retained earnings of $13,209 as of June 30, 1986. These retained earnings included net income from operations for the year of $10,807.

Total revenues received by the provider for this same period amounted to $215,306, of which $152,590 was generated from DSS contracts and DPW voucher day-care payments. Of the $62,716 generated from other fee-for-service payments, $46,182 was from sliding fee payments, and $16,534 was received in food reimbursements from the U.S.D.A. Child Care Food Program.

EOHS agency revenues received by the provider, $152,590, represented approximately 71 percent of total income, while other fee payors for service represented approximately twenty-nine percent of total income.

EOHS/OAA requested that DSS negotiate an administrative agreement with Jack N' Jill Kindergarten and Child Care Center, Inc. which addresses findings A, B, C, D, E, F, H, and J. RSC was asked to review finding I and take whatever action is determined necessary. Finding G was referred to the IRS to take whatever action is deemed necessary. All other findings were referred to RSC and DPW for informational purposes. An appropriate response was received from the Rate Setting Commission.

Auditee Name:	Jackson Mann Community School Council, Inc. 500 Cambridge Street Allston, Ma. 02134
Audit #:	C-595-88

Jackson Mann Community School Council, Inc., a non-profit corporation, provided day and after school care to area families during the audit period. The provider contracted with the Department of Social Services and was audited for the year ended June 30, 1986.

A summary of the audit report findings includes:

A. Several weaknesses were noted in the provider's internal controls.

B. The provider did not record an accrual for vacation time earned by employees. All accruals should be recorded in accordance with generally accepted accounting principles.

C. The provider's financial statements did not contain a compliance section giving independent assurance that the financial record keeping practices were in compliance with DSS requirements.

D. The provider's cash account did not reconcile to the audited financial statements.

E. The provider invoiced and was reimbursed in excess of the maximum obligation for one contract in fiscal year 1986. The total overbilling was $2,018. The provider maintained that the maximum obligation had been increased by a contract amendment, but could not provide a copy of the amendment.

F. The financial statements of Jackson Mann Community School Council, Inc. audited by Kesner, Marcus & Company, CPA's, indicated a fund balance of $111,894 as of June 30, 1986. This balance included excess expenses over income of ($25,255) which accrued during fiscal year 1986.

Total revenues received by the provider for this same period amounted to $864,654, of which $184,817 was generated by a Department of Social Services contract. Of the $294,792 generated from other fee-for-service payments, $59,339 was from the City of Boston, $121,999 was from Community Development Block grants, $30,181 was from an Adult Basic Education Grant, $5,360 was from the Department of Education Bureau of Nutrition, $14,400 was from course fees, $4,887 was from voucher income, and $58,626 was from client fees. Additionally, $385,045 was received from contributions, memberships, vending, rent, interest and dividends, and miscellaneous income.

EOHS agency revenues received by the provider, $184,817, represented 21 percent of income, while other fee payors for services represented thirty-four percent of income. The remaining revenues represented forty-five percent of income.

EOHS/OAA requested that DSS negotiate an administrative agreement with Jackson Mann Community School Council, Inc., which addresses findings A through D. DSS was also requested to review the appropriateness of recovery of funds that were described in finding E.

Auditee Name:	KLH Child Development Center, Inc. 136 Magazine Street Cambridge, Ma. 02139
Audit #:	0-519-87

KLH Child Development Center, Inc., a non-profit corporation, provided day care services for children of individuals employed in nearby industries, during the audit period. The provider contracted with the Department of Social Services and was audited for the year ended June 30, 1986.

A summary of the audit report findings includes the following:

A. There were several weaknesses noted in the provider's internal controls.

B. The provider's financial statements did not include a Statement of Functional Expenses identifying the organization's expenses by program.

C. The provider's financial statements did not contain a compliance statement, nor was a separate letter prepared by the provider's certified public accountant giving independent assurance that the provider's financial record keeping practices were in compliance with DSS requirements.

D. The provider's financial and accounting records were not maintained in a manner that allowed for the tracing of revenues and expenses to individual contracts.

E. The provider did not maintain a detailed listing of fixed assets.

F. The financial statements of KLH Child Development Center, Inc., audited by J. Laurence Cole, CPA, indicated a $52,693 fund balance, comprised of a $52,343 unrestricted fund and a $350 restricted fund, as of June 30, 1986. This balance included excess expenses over revenue of ($30,042) which accrued during the fiscal year 1986.

Total revenues and support received by the provider for this same period amounted to $302,086, of which $193,385 was generated from DSS contracts. Of the $89,202 generated from other-fee-for service payments, $25,051 was received from the Department of Education/Bureau of Nutrition and $64,151 was from client sliding fee payments. Additionally, $19,499 was received from rental income, donations, fund-raising and interest income.

EOHS agency revenues received by the provider, $193,385, represented 64 percent of total income, while other fee payors for service represented twenty-nine percent of total income. The remaining revenues represented seven percent of total income.

EOHS/OAA requested that DSS negotiate an administrative agreement with KLH Child Development Center, Inc. which addresses findings A, B, C, D, and E. All findings were referred to RSC and DOE for informational purposes.

Auditee Name: La Alianza Hispana, Inc.
409 Dudley Street
Roxbury, Ma. 02119

Audit #: BC-555-87

La Alianza Hispana, Inc., a non-profit corporation, provided drug prevention and drug counseling services to youths, during the audit period. The provider contracted with the Departments of Social Services and Public Health and was audited for the year ended June 30, 1984.

A summary of the audit report finding is as follows:

A. The financial statements of La Alianza Hispana, Inc., audited by Daniel Dennis & Company, Certified Public Accountants, indicated a $208,992 fund balance comprised of a $38,436 Operating Fund, and a $170,556 plant and equipment fund, as of June 30, 1984. This balance included excess income over expenses of $27,373, which accrued during fiscal year 1984.

Total revenues received by the provider for this same period amounted to $735,145, of which $162,764 was generated by the Department of Social Services and $66,083 by Department of Public Health contracts. The remaining $506,298 was supported from fees and awards from non-EOHS agencies.

EOHS agency revenues received by the provider, $228,847, represented 31 percent of income while other fees for service represented sixty-nine percent of income.

EOHS/OAA has submitted this audit for informational purposes only. No further action was required.

Auditee Name:	Lowell House, Inc. P.O. Box 173 Lowell, Ma. 01852
Audit #:	BC-570-88

Lowell House, Inc. provided a variety of alcoholism services during the audit period. The provider contracted with the Department of Public Health and was audited for the year ended June 30, 1984.

A summary of the audit report findings includes:

A. Several weaknesses were noted in the provider's internal controls.

B. The provider did not maintain a detailed equipment and furniture inventory listing as required.

C .The provider did not document employee time worked with authorized time sheets, as required.

D. The provider could not locate invoices and expense documentation supporting $4,098 billed under one DPH cost reimbursement contract.

E. The provider did not maintain a copy of the Annual Report to the Secretary of State's Office on the premises, as required.

F. The financial statements of Lowell House, Inc. indicated a $15,216 fund balance as of June 30, 1984. This balance included excess expenses over income of ($12,118) which accrued during fiscal year 1984.

Total revenues and support received by the provider for this same period amounted to $224,974, of which $197,679 was generated by DPH contracts. Other fee-for-service payments of $10,814 were from client rents and fees. Additionally $16,481 was received from food stamps, interest income and donations.

EOHS agency revenues received by the provider, $197,679, represented 88 percent of income. Other fee-for-service payments represented five percent of income. The remaining revenues represented seven percent of income.

EOHS/OAA requested that DPH negotiate an administrative agreement with Lowell House, Inc., that addresses findings A, B, C, and E, and also addresses the appropriateness of recovery of funds noted in finding D.

Auditee Name: Main South Neighborhood Association, Inc.
932 Main Street
Worcester, Ma. 01610

Audit #: C-584-88

Main South Neighborhood Association, Inc., a non-profit corporation, disseminated information and implemented programs in the areas of education, social services, housing, employment, recreation and related fields during the audit period. The provider contracted with the Department of Social Services and was audited for the year ended June 30, 1986.

A summary of the audit report findings includes the following:

A. There were several weaknesses noted in the provider's internal controls.

B. The provider could not locate a copy of the Secretary of State's Annual Report nor was there any evidence that it had been filed.

C.. The provider's financial statements did not contain a statement of functional expenses, the required notes to the financial statements, nor did they contain a letter of compliance giving assurance that the provider's books and records were in compliance with Attachment C of the DSS Standard Purchase Agreement.

D. The provider had no fixed asset schedule, and no policy for capitalization.

E. Many of the provider's payroll tax forms and payroll records were missing. In addition, there were no personnel records detailing job descriptions, job qualifications, Forms W-4 or resumes.

F. The provider had no payroll register, payroll reconcilation schedule or general ledger.

G. The provider did not separate expenditures by contracts.

H. A double entry bookkeeping system was not used by the provider and the records kept were not reconciled to cash. The provider maintained separate sheets for each income and expense account but they did not agree with the cash activity as recorded on the cash sheets.

I. The provider did not accrue employee earned vacation pay as required.

J. The financial statements of Main South Neighborhood Association, Inc., audited by Mercadante & Mercadante, P.C., CPA's indicated a $23,264 fund balance as of June 30, 1986. This balance includes excess of revenues over expenses of $10,488 which accrued during fiscal yearending June 30, 1986.

Total revenues received by the provider for this same period amounted to $222,864, of which $34,890 was generated by contributions. We were unable to determine the sources of the balance of revenues of $187,974 due to the lack of cash receipts records.

EOHS/OAA requested that DSS negotiate an administrative agreement with Main South Neighborhood Association, Inc. which addresses findings A, C, D, E, F, G, H, I, and J. EOHS/OCM should review the significant recordkeeping inadequacies noted in the audit, and determine whether the provider should be included in the Vender Assistance Program. The Secretary of State's Office was asked to review finding B and to take whatever action is deemed necessary. In addition, the Massachusetts Board of Public Accountancy was asked to review findings C and F and take whatever action is deemed appropriate. All findings were referred to the RSC for informational purposes. An appropriate response was received from EOHS/OCM.

Auditee Name:	Massachusetts Adoption Resource Exchange, Inc. 867 Boylston Street, 6th Floor Boston, Ma. 02116
Audit #:	C-596-88

Massachusetts Adoption Resource Exchange, Inc., a non-profit corporation, assisted governmental and private agencies to find adoptive families for children awaiting adoption during the audit period. The provider contracted with the Department of Social Services and was audited for the year ended June 30, 1986.

A summary of the audit report findings includes:

A. There were several weaknesses noted in the provider's internal controls.

B. The provider did not issue or file with the IRS, Federal Tax Forms 1099 for consultants paid during the period July 1, 1985 through June 30, 1986.

C. The provider did not file an Annual Report with the Secretary of State's Office for FY 1986 as required.

D. The provider did not have a complete general ledger system during fiscal year 1986. The general ledger maintained on file by the provider could not be reconciled or supported by subsidiary ledgers for payroll, cash receipts and cash disbursements.

E. The provider did not record an accural for vacation time earned by employees.

F. The provider's annuity contributions were 7.1% of total salaries. This exceeded amounts allowed by RSC regulations.

G. The financial statements of Massachusetts Adoption Resource Exchange, Inc. audited by John H. Malloy, Jr. & Co., CPA's indicated a fund balance of $69,098, consisting of a $57,874 unrestricted fund and a $11,224 plant fund, as of June 30, 1986. This balance included excess income over expenses of $5,979 which accrued during fiscal year 1986.

Total revenues received by the provider for this same period amounted to $370,165, of which $283,857 was generated by a Department of Social Services contract. Other fee-for-service payments of $27,657 were received from the U.S. Department of Health and Human Services. Additionally, $58,651 was received from contribution, investment income and special events.

EOHS agency revenues received by the provider, $283,857, represented 77% of income, while other fee payers for services represented seven percent of income. The remaining revenues represented sixteen percent of income.

EOHS/OAA requested that DSS negotiate an administrative agreement with Massachusetts Adoption Resource Exchange, Inc. which addresses findings A, D, and E. Finding F was referred to the RSC and finding C was referred to the SOS for whatever action is deemed appropriate. In addition, finding B was referred to the IRS for its review. An appropriate response was received from RSC and SOS.

Auditee Name: Massachusetts Commission for the Deaf and Hard of Hearing
600 Washington Street, Suite 600
Boston, Massachusetts 02111

Audit #: 88-302-1

The Massachusetts Commission for the Deaf and Hard of Hearing is an agency within the Executive Office of Human Services. The Commission was audited by the Auditor of the Commonwealth for the period July 1, 1986 through June 30, 1987. A summary of the audit findings is as follows:

A. The Commission had no property and equipment inventory control system during the audit period, as required. Because of the absence of such a system, management had no assurance that the $361,866 of equipment purchased during the audit period was sufficiently protected against loss or theft.

According to the Auditor, during December 1987, the Commission started taking a full inventory of all property and equipment. In addition, permanent identification tags were being affixed to all property and equipment.

EOHS/OAA requested that MCDHH submit for review a written response which addresses finding A. An adequate response was received and this case was closed.

Auditee Name: Massachusetts Easter Seal Society, Inc.
484 Main Street
Worcester, Ma. 01608

Audit #: 0-598-88

Massachusetts Easter Seal Society, Inc. a non-profit corporation, provided a wide range of programs for people with disabilities, including home health care, during the audit period. The provider contracted with the Massachusetts Rehabilitation Commission and was audited for the year ended June 30, 1986.

A summary of the audit report finding is as follows:

A. The financial statements of the Massachusetts Easter Seal Society, Inc., audited by Touche Ross and Company, Certified Public Accountants, indicated a $1,934,449 fund balance comprised of $1,550,671 Operating Fund, $22,680 Endowment Fund, and $361,098 Land, Building and Equipment Fund as of August 31, 1986. This balance included excess income over expenses of $548,333, which accrued during fiscal year 1986.

Total revenues received by the provider for this same period amounted to $5,056,531, of which $23,764 was supported by a Massachusetts Rehabilitation Commission contract. Of the $2,374,448 generated from other fee-for-service payments, $2,372,358 was from program fees, and $2,090 from a grant. Additionally, $2,658,319 was received from donations, fund-raising, bequests, and interest income.

EOHS agency revenues received by the provider, $23,764, represent .5 percent of total income, while other fee payors for service represented forty-seven percent of total income. The remaining revenues represented fifty-two and one-half percent of total income.

EOHS/OAA has closed this audit as no further action was required.

Auditee Name: Massachusetts Residential Services, Inc.
250 Dowling Highway
North Smithfield, RI. 02895

Audit #: 0-521-87

Massachusetts Residential Services, Inc., a non-profit corporation, provided staffed apartment programs during the audit period. The provider contracted with the Department of Mental Health and was audited for the period ended June 30, 1986.

A summary of the audit report findings includes:

A. There were several significant weaknesses noted in the provider's internal controls. The combined effect of these weaknesses is an environment with potential for fraud, waste, or abuse.

B. The provider had three contracts with DMH during the audit period. The provider maintained a staffed apartment through one DMH contract, #57307, under which it was reimbursed $24,348. All of the staff providing direct care services at this site were DMH employees. The provider's contract consisted of line items for administrative and program expenses only. Therefore, this contract was a fiscal conduit contract.

C. The provider had not filed the following required government reports for fiscal year 1986: the IRS Form 990, the Attorney General's Form PC, and the Secretary of State's Annual Report (which has since been filed).

D. The provider's financial statements did not include $228,441 of DMH in-kind services, comprised of salaries of DMH employees.

E. The provider did not maintain a copy of its fiscal year 1986 RSC 1100 Cost Report. A telephone call to RSC produced a copy of the report that had been filed by the assistant executive director. This copy was incomplete and incorrect. For example, the form submitted was the fiscal year 1985 form. Furthermore, it did not include Schedule 12c and Schedule 22. Schedule 2 was submitted as not applicable. A second telephone call was made to RSC to determine if this report was used to determine rates of reimbursement. At that time, the RSC stated that its copy of the report was different than the one originally provided to the auditors. When it was noted that the auditor's copy was obtained from RSC, a reason for the variance could not be given. A second copy of the report was obtained and reviewed. It also was the fiscal year 1985 form which also lacked Schedules 12c and 22. It did, however, have a completed Schedule 2. Neither could be reconciled to the provider's audited financial statements.

F. For the fiscal year ending June 30, 1986, the provider received $11,811. in excess revenue over expenditures from both of its DMH unit rate contracts, as follows: from contract #57307, $4,597, which was 19% of total contract income, and from contract #57303, $7,214, which was 9% of total contract income. The underspending that occurred in contract #57303 could be traced directly to Salary, Fringe Benefits, and Payroll Tax line items. While the overall underspending that occurred in this contract totaled 9%, the specific underspending in the Salary, Fringe Benefit, and Payroll Tax line items equalled 21% of the total amount budgeted for these line items. This included $2,896 in funds received for salary upgrading which was never paid to the provider personnel.

G. During fiscal year 1986, the provider received full payment for the amounts budgeted for Indirect Cost line items on its three (3) DMH contracts. The total amount paid was $14,393. These indirect costs were used to pay a "management fee" to one of the provider's related parties, Rhode Island Residential Services, Inc., for administrative expenses. An attempt to review this management fee proved inconclusive. A review of the related party's general ledger provided no evidence to support the $14,393 billed to DMH.

H. During fiscal year 1986, the provider paid $18,300 in rent from DMH contract #57303 to the same related party, Rhode Island Residential Services, Inc. Based on our review of the related party's general ledger, it was determined that allowable related party costs totalled $12,495. It was determined that the provider paid excess rental payments of $5,805.

I. The provider did not maintain travel vouchers for travel expenses reimbursed through DMH contracts #57303 and #57365. Total reimbursement amounted to $500.

J. The review of one month's cash disbursement noted that five disbursements, totaling $10,456, were not supported by documentation. Two (2) of these disbursements, totaling $10,000, were paid to Rhode Island Residential Services, Inc., the same related party noted in findings (G) and (H) above.

K. A review of one month's attendance at the Barnstable and Falmouth sites determined that the provider did not maintain records of daily attendance. In addition, the executive director stated that attendance calendars were not required at the Yarmouth site. Therefore, the service delivery reports which were submitted to DMH, with invoices for reimbursement on all three of these contracts, were unsupported and the appropriateness of state funding of $204,550 could not be substantiated.

L. During calendar year 1985, the provider paid $1,663 for repairs and maintenance to an outside contractor. There were no invoices available for review regarding these services. However, at the exit conference the provider submitted copies of invoices for these expenditures.

M. The provider did not issue an IRS Form 1099 to the individual noted in finding L above.

N. The provider did not maintain time sheets for its employees at the Barnstable and West Yarmouth sites. The total payroll expense was $109,000.

O. The employee files maintained by the provider were incomplete. Of the fourteen files tested, seven were missing resumes, four were missing forms W-4, and none contained job descriptions.

P. During the first two quarters of fiscal year 1986, the provider did not include payments to one individual in its IRS Forms 941 FICA tax calculation. The employee's gross and net wages for these two quarters was $3,345. This employee was traced to a 1985 Form W-2. However, the employee had no Social Security number and had not filed a Form W-4 with the provider.

Q. The provider received a $7,596 payment from DMH in December, 1986, based on a retroactive amendment to cost reimbursement contract #57365. There was no copy of the Standard Amendment Form available at the provider's administrative offices. The DMH Area Office provided the auditors with all the amendment materials for this contract. However, the Standard Amendment Form referred to above was not located.

R. DMH contract #57307 had eight FTE state employees who delivered direct care at the provider's Falmouth site. The provider did not have a Partnership Agreement with DMH.

S. The financial statements of Massachusetts Residential Services, Inc., audited by Sparrow, Johnson, and Ursillo, Inc., CPA, indicated a $6,904 fund balance as of June 30, 1986. This balance included excess income over expenses of $8,008, which accrued during fiscal year 1986.

Total revenues and support received by the provider for this same period amounted to $262,204 (not including $228,441 of undisclosed DMH in-kind support). Of the $262,204 total revenue and support, $204,550 was generated by DMH contracts. The remaining $57,654 was from client fees.

EOHS agency revenues and support received by the provider, $432,991, represented 88 percent of total income, while client fees represented twelve percent of total income.

EOHS/OAA requested that DMR negotiate an administrative agreement with Massachusetts Residential Services, Inc., which addresses findings A, B, D, I, J, K, L, M, N, O, and R. In addition, the administrative agreement was to address recovery of funds totalling $59,233, which were noted in findings B, F, G, J, and Q and the appropriateness of recovery of funds in F, I, and J. Also, DMR was asked to determine whether they should contract with this provider in the future. RSC was requested to review findings E and H and take whatever action is deemed appropriate. The AG and the SOS were asked to review finding C and to take appropriate action. In addition, findings C and P were referred to the IRS for its review. The entire report was referred to EOHS/OCM to review whether DMR should continue to contract with this provider. An appropriate response was received from EOHS/OCM.

Auditee Name: Norfolk Human Services, Inc.
91 Central Street
Norwood, Ma. 02062

Audit #: BC-251-87

Norfolk Human Services, Inc., a non-profit corporation, provided direct and support services to those needing social services, mental health services, rehabilitation services, and educational services during the audit period. The provider contracted with the Department of Mental Health and was audited for the year ended June 30, 1984.

A summary of the audit report findings includes:

A. One weakness was noted in the provider's internal controls and that was, employees having responsibility for access to cash were not covered by fidelity bond insurance.

B. The provider does not have a formal indirect cost allocation plan related to administrative salaries. The actual indirect costs rate billed was 7.39% compared to the 6.86% budgeted, however the actual rate is still beneath the EOHS guidelines of 10% maxium.

C. The financial statements of Norfolk Human Services, Inc., indicated a $74,875 fund balance comprised of a $65,404 operating fund, and a $9,471 vehicle and equipment fund as of June 30, 1984. This balance included excess expenses over income of $3,781 which accrued during fiscal year 1984.

   Total revenues and support received by the provider for this same period amounted to $1,905,237, of which $1,540,160 was generated by Department of Mental Health contracts. Of the $249,208 generated from other fee-for-service payment, $150,707 was from third party reimbursement and $98,501 was from client fees. Additionally, $115,869 was received from donations, specialevents, and interest income.

   EOHS agency revenues received by the provider, $1,540,160,represented 81% of total income, while other feepayors for service represented thirteen percent of total income. The remaining revenues represented six percent of total income.

EOHS/OAA requested that DMH negotiate an administrative agreement with Norfolk Human Services, Inc., which addresses findings A and B. An appropriate response was received from DMR and the audit was closed.

Auditee Name:	Northampton State Hospital P.O. Box 389 Northampton, Ma. 01061
Audit #:	88-263-1

The Northampton State Hospital, a facility within the Department of Mental Health, was audited by the Auditor of the Commonwealth for the period July 1, 1986 to June 30, 1987. A summary of the audit findings includes:

A. Several weaknesses were noted in the hospital's internal controls of client funds. A lack of clearly defined, standardized procedures allowed control inconsistencies among the units of the hospital, inconsistencies which precluded an adequate monitoring of the balances of residents' funds. As a result, funds were disbursed without proper authorization and were misappropriated. This finding was included in a prior audit report.

B. The hospital did not maintain an adequate system for controlling its inventory of property and equipment. Existing inventory records could not be used as a management safeguard against theft or loss, as the hospital had not established clear lines of responsibility for safeguarding equipment items. This finding was also included in a prior audit report.

C. While the audit was in progress, a caseworker was convicted by the Northampton Superior Court for the theft of approximately $14,600 in residents' funds. The court order required the caseworker to make restitution to the residents after serving a one-year sentence. As of March 31, 1988 the hospital had made no attempt to recover residents' losses through its bonding company, or through filing special legislation.

EOHS/OAA requested that DMH submit a written response describing actions taken to address the findings in the report. An appropriate response was received from DMH and the audit was closed.

Auditee Name: North Charles Mental Health Research and Training Foundation, Inc.
P.O. Box 793
Cambridge, Ma. 02238

Audit #: BC-577-87

North Charles Mental Health Research and Training Foundation, Inc. provided out-patient services to individuals recovering from drug abuse, during the audit period. The provider contracted with the Departments of Mental Health and Public Health and was audited for the year ended June 30, 1984.

A summary of the audit report findings includes:

A. Several weaknesses were noted in the provider's internal controls.

B. The provider did not maintain adequate time and attendance records of actual hours spent on each contract as required.

C. The provider failed to disclose a related party transaction regarding an advance to Cambridge Psychiatric Associates (CPA), an affiliated company, on its RSC cost report as required.

D. The provider's general ledger did not reconcile to the Federal Tax Form 941 for the quarter ending June 30, 1984.

E. The financial statements of North Charles Mental Health Research and Training Foundation, Inc. indicated a $19,396 fund balance as of June 30, 1984. This balance included excess expenses over income of ($132,464) which accrued during fiscal year 1984.

   Total revenues received by the provider for this same period amounted to $3,750,748 of which $1,616,821 was generated from contracts with the Department of Mental Health and the Department of Public Health. Of the $1,548,106 generated from other fee-for-service payments, $277,595 was from direct patient service, $122,222 was from consulting services, $301,354 was from tuition, and $846,935 was from non-EOHS grants. The remaining $585,821 was received from other sources.

EOHS agency revenues received by the provider, $1,616,821, represented 43% of income, while other fee payers for service represented forty-one percent of income. The remaining revenues represented sixteen percent of income.

OHS/OAA requested that DPH negotiate an administrative agreement with North Charles Mental Health Research and Training Foundation, Inc., that addresses findings A, B, and D. RSC was requested to review finding C and confirm that this information has already been taken into account in rate determinations. An appropriate response was received from RSC.

Auditee Name: Pioneer Developmental Center, Inc.
154 Grove Street
Chicopee, MA 01020

Audit #: 0-356-87

Pioneer Developmental Center, Inc., a non-profit corporation, provided early childhood, family resource, adult community and service planning and coordination programs during the audit period. The provider contracted with the Department of Mental Health and the Department of Public Health and was audited for the year ended June 30, 1986.

A summary of the audit report findings includes the following:

A. There were several weaknesses noted in the provider's system of internal controls.

B. The accounting records of the provider detailed expenses by program. They did not, however, identify the expenses of each EOHS contract as required.

C .During fiscal year 1986, the provider leased its administrative office from the College of Our Lady of the Elms. Total lease costs for the fiscal year, including maintenance, insurance, and utilities, were $56,300. The provider sublet a portion of the space at this site to the Holyoke/Chicopee Department of Mental Health Area Office. The area office paid $10,000 for approximately 50% of the available building space.

An analysis of costs versus income revealed that the provider supported 82% of the costs while using approximately 50% of the site. This resulted in $18,000 excess expenditure being borne by the provider.

This situation was terminated as of December 1, 1988. The provider has relocated its administrative offices.

D. The provider did not maintain a written lease agreement with the Holyoke/Chicopee DMH Area Office for the property noted in C above. The provider stated that DMH would not sign an agreement, although this was requested. This was not in compliance with record maintenance requirements of the EOHS General Conditions. In addition, this situation created an appearance of conflict of interest, in that a reasonable person reviewing the circumstances could conclude that the Area Office was taking advantage of its position as the funding agency to influence the rental relationship with the provider. As noted in C above, this situation no longer exists.

E. Analysis of positions for Commonwealth of Massachusetts employees who were assigned to the provider revealed that Department of Mental Health employees actually held positions in the Department of Public Health Toddler Center program.

Historically, this program was funded through DMH. However, several years ago, when DPH assumed responsibility for Early Intervention programs, these positions were not transferred. This created a situation whereby the rates of reimbursement for two separate and distinct historical based program budgets did not reflect actual costs. The executive director stated that DMH was aware of this situation.

F. A review of the RSC 1100 Cost Report and the audited statement of functional expenses revealed $22,039 billed and reimbursed through a DMH cost reimbursement contract, for costs actually incurred and reported for the DPH Early Intervention program, as noted above.

G. The provider's Early Childhood Services program, primarily funded by a DPH class rate contract, generated a $66,261 excess of revenue over expenses. The excess revenue represented 26 percent of the income for this program (not including in-kind), and represented 96% of the provider's excess revenue for the fiscal year. The EOHS Audit Resolution Policy requires the reporting of any variance of 5% or $50,000, whichever is less, to the Rate Setting Commission for determination of appropriate action.

H. Both the provider's RSC 1100 Cost Report and its audited financial statements for fiscal year 1986 reflected in-kind revenue of $223,394. However, the in-kind expenses reported totalled $217,391. This figure included $35,585 for payroll taxes and fringe benefits, which was 20% higher than the figure given to the provider by the Departments of Mental Health and Public Health. In addition, $6,003 of estimated in-kind expenses was grouped with actual agency expenses and not accurately identified.

I. The provider depreciated $32,442 of state-owned equipment on its fiscal year 1986 financial statements. This condition violated the AICPA Industry Audit Guide for Audits of Voluntary Health and Welfare Organizations.

J. The financial statements of Pioneer Development Center, Inc. audited by Aubrey, Dixon, and McGarrigle, CPA, indicated a $122,779 fund balance as of June 30, 1986. This balance included excess income over expenses of $68,785 which accrued during fiscal year 1986.

Total revenue and support received by the provider for this same period amounted to $1,095,935, of which $961,811 was generated by Department of Mental Health and Department of Public Health contracts and support. Of the $117,548 generated from other fee-for-service payments, $48,689 was from Medicaid, $34,421 was from a Massachusetts 89-313 grant, $20,141 was from the Chicopee Public Schools, $11,189 was from client fees, and

$3,108 from sub-contract income from another provider. Additionally, $16,576 was received in rental income, donations and interest income.

EOHS agency revenue received by the provider, $961,811, represented 88 percent of income, while other fee payors for service represented ten percent of income. The remaining revenues represented two percent of income.

EOHS/OAA requested that DMR negotiate an administrative agreement with Pioneer Developmental Center, Inc., which addresses findings A, B and E in accordance with the provider's response as contained in the report. This agreement was also to include a DMR Central Office response which addresses findings C and D. RSC was requested to review findings F, G, H and I to determine what effect, if any, they had on the fiscal year 1988 and 1989 rates paid to the provider, and to take whatever administrative action was appropriate. All findings were referred to DPH for informational purposes. RSC adequately responded to all audit referrals.

Auditee Name:	Barry L. Price Rehabilitation Center, Inc. 25 Chestnut Street Newton, Ma. 02165
Audit #:	0-523-88

Barry L. Price Rehabilitation Center, Inc., a non-profit corporation, provided vocational, behavioral, and day services to developmentally disabled adults during the audit period. The provider contracted with the Department of Mental Health and was audited for the year ended June 30, 1986.

A summary of the audit report findings includes the following:

A. One internal control finding was noted during the audit field work. Time sheets were not adequately maintained for all employees.

B. The provider did not maintain complete employee personnel records, which would contain job descriptions and qualification requirements.

C. During the audit, client employment records were reviewed. Several client productivity sheets could not be located.

D. The audit sampled two out of nine client program records, and in one case an intensive day program client did not have an individual service plan (ISP) as required.

E. The provider's intensive day program did not receive a license within six months of the initiation of client services as required.

F. The provider did not have on file a copy of a DMH contract, under which it received $5,768 from the Massachusetts Mental Health Center (MMHC), an area office of the Department of Mental Health. When contacted during the audit, the Department's area office stated that it was unable to locate a record of the agreement. The auditor requested MMHC to obtain a copy of the agreement from any other source (e.g., DMH Central Office), but MMHC was unable to do so. As a result the auditor was unable to review Attachments A and B, or to test the material agreed upon by the contract, as required.

G. The provider's final amended fiscal year 1986 Unit Rates for the Sheltered Workshop and Day Activity Programs were computed for the provider by DMH staff of the Newton/ Wellesley/Needham/Weston Area Office. Because of Computation and Methodology errors, the rates were inflated by $.24 for the Sheltered Workshop and by $.75 for the Day Activity Program Unit. The provider stated that upon receipt of the 600B Amendments, a meeting with the Area Office to discuss the rates was requested, but the request was denied and the provider was instructed to sign the documents as prepared. Because of these miscalculations the provider overbilled DMH by $1,667.07.

H. The provider reported $625 of depreciation expense for a donated vehicle on its RSC 600B Budget forms used to compute reimbursement rates for the Sheltered Workshop and Day Activity Programs, which overstated allowable expenses by a total of $625.

I. The provider's 1986 RSC form 600B total program costs exceeded actual cost by $20,301, for the Sheltered Workshop Program. However, actual costs for the Day Activity Program exceeded the RSC form 600B costs by $13,859. These amounts represented a variance of fifteen (15) percent of the amounts paid for these programs by DMH. The failure to appropriately amend the RSC 600B forms to the actual spending levels was not in accordance with the intent of RSC Regulations.

J. The provider received unanticipated offsetting program support of $24,613 in excess of amounts listed on the fiscal year 1986 RSC 600B program budget for the Sheltered Workshop Program. The provider did not amend its program budgets for DMH contracts by offsetting allowable program costs by the additional $24,613, as required.

K. The provider's RSC 1100 Cost Report contained inaccurate information, such as incorrect salary levels and unrestricted income miscategorized as restricted income.

L. The financial statements of Barry L. Price Rehabilitation Center, Inc., audited by Alexander, Aronson, Finning & Co., P.C., indicated a $181,518 fund balance comprised of a $39,039 General Fund, a $67,757 Fixed Asset Fund, a $35,605 Building Fund, and a $39,117 board designated Endowment Fund as of June 30, 1986. This balance included excess income over expenses of $20,400 which accurued during fiscal year 1986.

Total revenues and support received by the provider for this same period amounted to $265,932, of which $160,135 was generated by DMH contracts. Of the $49,359 generated from other fee-for-service payments, $35,264 was from the city of Newton and other purchases of client services, and $14,095 was from commercial products and services of the provider's vocational programs. Additionally, $56,438 was received from donations, fund-raising, membership fees, and interest income.

EOHS Agency revenues received by the provider, $160,135, represented 60 percent of total income, while other fee payors for client services represented nineteen percent of total income. The remaining revenues and support represented twenty-one percent of total income.

EOHS/OAA requested that DMR negotiate an administrative agreement with Barry L. Price Rehabilitation Center, Inc. which addresses findings A, B, C, D, E, and F. In addition, DMR Central Office should address the circumstances described in finding G. RSC was requested to review findings G, H, I, J, and K and take whatever action is deemed appropriate. All other findings were referred for informational purposes.

Auditee Name:	Project Turnabout, Inc. 224 Beal Street Hingham, MA 02042
Audit #:	C-106-88

Project Turnabout, Inc., a non-profit corporation, provided long-term and outpatient services for substance abusers during the audit period. The provider contracted with the Department of Public Health and the Department of Public Welfare and was audited for the fiscal year ended June 30, 1987. A summary of the findings contained in the audit report includes the following:

A. There were several weaknesses noted in the provider's system of internal controls.

B. The provider's financial statements at June 30, 1987 detailed a fund deficit of ($318,769). This included ($128,872) of excess expenses over revenue during the same period. These facts led the provider's CPA to issue a "going concern" opinion. During this same period, the provider maintained an outpatient program named Whitmans Pond Family Services. This program incurred excess expenses over revenue in current funds of ($103,925) during the same period ended June 30, 1987. In addition, the Whitmans Pond Family Services portion of Project Turnabout, Inc.'s fund deficit was ($139,757), as of June 30, 1987.

   In March 26, 1987, Whitmans Pond Family Services, Inc. was incorporated as a separate entity. On July 1, 1987 the Whitmans Pond Family Services program was assumed by Whitmans Pond Family Services, Inc.

   As of June 30, 1988, Project Turnabout, Inc.'s fund balance was $39,513, comprised of a current fund deficit of ($9,343) and a positive property fund balance of $48,856. These figures were reported on a combined balance sheet for Project Turnabout, Inc. and Whitmans Pond Family Services, Inc.

   However, in order to have a more accurate picture of the provider's cash position, this positive fund balance should be reviewed further without the benefit of the building purchase (see finding C). An analysis of the provider's cash, receivables and other assets against its second mortgage and other liabilities, disregarding the real estate and equipment, showed that the provider could have a fund deficit of ($520,558) as of June 30, 1988.

C. On July 17, 1974, the provider was conveyed 7 1/2 acres of land and a building from the U.S. Department of Health, Education and Welfare (the predecessor of the Department of Health and Human Services) subject to four conditions. One condition required HEW's permission to mortgage the property.

On January 20, 1988, the U.S. Department of Health and Human Services (HHS) entered into an agreement abrogating the first three conditions but replacing them with an initial payment of $31,814 and a first mortgage of $443,186, said sum to be amortized at $1,319 per month, for thirty years (July, 1974 to July, 2004). Upon a sale of the property, the then current balance of this sum would be payable to HHS, if the sale proceeds were not devoted to approved usage. As of June 30, 1988, the potential payback upon unauthorized sale would be $222,840, as reported on the provider's audited financial statements.

On the same date, January 20, 1988, both the provider and a related party (Whitmans Pond Family Services, Inc.) entered into a second mortgage on this property for $512,000 with the Rockland Trust Company. This mortgage required only interest payments until March, 1989, when the entire balance was to become due.

The second mortgage was signed by the person who serves as Executive Director for both Project Turnabout, Inc. and Whitmans Pond Family Services, Inc., binding both corporations. In recent months, it is the understanding of the auditors that only Project Turnabout, Inc. has been making the interest payments.

D. The provider was delinquent on State Withholding Taxes and State Unemployment Taxes as of June 30, 1988. The total delinquency was $1,951. This violated Massachusetts General Laws. In addition, the auditors noted that the provider had been levied by the IRS for the quarter ended December 31, 1987. The provider has responded that all delinquent taxes have been paid.

E. The provider's Certified Public Accounting firm issued qualified opinions on the provider's financial statements for both fiscal years 1985 and 1987. The EOHS Purchase of Service Procurement and Contracting Manual required providers with qualified opinions to submit plans of corrective action to its purchasing agency. The provider submitted such plans for both fiscal years 1986 and 1989.

F. The provider's program site appeared crowded. The executive director and his assistant maintained office space at another site, referred to in A-2. The provider intended to expand program capacity through the enclosure of a porch. It produced a DPH license which set capacity at 25 clients as proof that the expansion was approved by one of its funding sources. DPH should review and monitor any efforts to expand this program.

The provider responded that its capacity had since been approved at 27 clients.

G. The Department of Public Welfare conducted an audit of its employment and training program for the fiscal year 1986. That audit cited several problems which have also been noted in this report. In addition, it reported serious cash flow problems which still exist as of the date of this letter.

The provider answered that it had responded to the issues of the DPW report, and was working on its cash flow problems.

H. The provider's expenditures were not accounted for on a program and contract basis as required. This condition was noted in the DPW audit mentioned previously.

The provider responded that it was now maintaining its records by program.

I. During fiscal year 1987, posting to the general ledger was not done on a timely basis. Adjusting entries were made once a year at the end of the fiscal year. The provider stated in its response that it was now posting on a timely basis.

J. The following problems were noted in the provider's equipment records:

1. An accurate inventory of donated, capitalized equipment was not maintained. When items were discarded, the retirement of the asset was not recorded on the provider's books or reported to its auditor. Thus, it appears that the provider's fixed assets were overstated as of June 30, 1987.

2. The provider did not keep a list of all non-capital equipment purchased with state funds as required.

3. The provider was depreciating donated assets on its RSC 1100 Cost Report in violation of RSC Regulation. The total depreciation taken on donated assets during fiscal year 1987 was $649. In addition, the provider was not adhereing to allowable RSC depreciation rates. This caused it to understate its fiscal year 1987 depreciation on non-donated assets by $241.

K. Based on the provider's audited fiscal year 1987 financial statements, it appears that annual program costs for the Whitmans Pond Family Services program were grossly underestimated. Actual costs exceeded revenues by $103,925 during fiscal year 1987. This figure represented 80% of the provider's excess of expenses over revenues for the fiscal year.

As noted above, a separate corporation now operates that program (Whitmans Pond Family Services, Inc.). However, that corporation and the provider, Project Turnabout, Inc., file one set of consolidated financial statements which present combined operations of both corporations. As reported in the Supplemental Information of our audit report, the Board of Directors of Whitmans Pond Family Services, Inc. (identical to the provider's Board) claims that all loss operations at the Whitmans Pond Family Services program have ceased as of November, 1988.

L. The provider did not maintain any support documentation for $166,354 in expenditures for the Whitmans Pond Family Services program as required. The documentation was at another site and not available for review.

M. No time sheets were maintained for the executive director and there was no program and cost allocation on the other employees' time sheets. During fiscal year 1987, the provider billed $206,499 to DPH and $48,050 to DPW, none of which could be traced to services documented by adequate time sheets as required. Poor time sheets were previously cited in a fiscal year 1986 DPW audit.

N. The financial statements of Project Turnabout, Inc. audited by Peter J. Yngve, CPA, indicated a ($318,769) fund deficit comprised of a ($362,031) current fund deficit, and a $43,262 property fund as of June 30, 1987. This balance included excess expenses over revenue of ($128,872) which accrued during fiscal year 1987.

Total revenues received by the provider for this same period amounted to $398,999, of which $254,549 was generated by DPH and DPW contracts. Of the $122,164 generated from other fee-for-service payments, $66,602 was from client fees, and $55,562 was from outpatient counseling in the Whitmans Pond Family Services program. Additionally, $22,286 was received from donations, fund raising, and interest and miscellaneous income.

EOHS agency revenues received by the provider, $254,549, represented 63 percent of income, while other fee payors for service represented thirty-one percent of income. The remaining revenues represented six percent of income.

EOHS/OAA requested the DPH negotiate an administrative agreement with the provider which addressed findings A, B, C, F, H, I, J-1 and J-2, K and L in accordance with the provider's response as contained in the report. In addition, DPH was asked to address the appropriateness of recovery of the DPH funds noted in finding M. EOHS/OAA requested that DPW negotiate anadministrative agreement with the provider which addressed findings G and H in accordance with the provider's response as contained in the report. In addition, DPW was asked to address the appropriateness of recovery of the DPW funds noted in finding M. RSC was asked to review finding J-3 to determine what effect, if any, it had on the rates paid to the provider in fiscal year 1988 and 1989. The Executive Office of Human Services, Office of Contract Management was asked to review findings B, C, E and N to determine if the Commonwealth should continue to contract with this provider. DOR and DET were asked to review finding D to determine if the provider is current with all of its payments. It should be noted that all findings were referred to HHS for informational purposes. OCM and RSC adequately responded to all audit referrals. DPH and DPW have responded and those responses are currently under review.

Auditee Name: Prospect House, Inc.
129 Lincoln Street
Worcester, Ma. 01605

Audit #: BC-065-88

Prospect House, Inc., provided community service programs, family and children's services, and substance abuse services during the audit period. The provider contracted with the Departments of Public Health, Public Welfare, and Social Services and was audited for the year ended June 30, 1984.

A summary of the audit report findings includes:

A. Several weaknesses were noted in the provider's internal controls.

B. The provider was not able to furnish the following material needed to issue an opinion on the financial statements: The Massachusetts Annual Reports for the years ended June 30, 1984 through June 30, 1986, Massachusetts Forms 941 or 942 for the year ended June 30, 1984, Bank statements and bank reconciliations for one bank account for the year under review, Purchase journal for the year ended June 30, 1984, and the Mortgage notes applicable to the year under review.

C. The provider used the Accelerated Cost Recovery System (ACRS) to depreciate its assets which yielded an overstatement of depreciation expense for the year ended June 30, 1984 of $1,023 on the RSC 600 Cost Report.

D. The provider did not provide overtime pay to its employees that worked in excess of 40 hours in a given work week.

E. Twelve of the provider's employees were selected for payroll testing, four of these employees did not have resumes in the personnel files.

F. The financial statements of Prospect House, Inc., indicated a $182,812 fund balance as of June 30, 1984. This balance included excess income over expenses of $10,151, which accrued during fiscal year 1984.

Total revenues received by the provider for this same period amounted to $683,660, of which $395,319 was generated from the Departments of Public Health, Social Services, and Public Welfare. Of the $246,728 received from other fee for service payments, $11,691 was from the Department of Education, $86,647 was from funding provided by the City of Worcester and $148,390 provided through client fees. The remaining $41,613 was received from contributions, fund-raising and interest.

EOHS agency revenues received by the provider, $395,319, represented 58 percent of total income, while other fee-payors for service represented thirty-six percent of income. The remaing revenues represented six percent of total income.

EOHS/OAA requested that DPH negotiate an administrative agreement with Prospect House, Inc., which addresses findings A, B, and E. RSC was requested to review finding C and take whatever action is deemed appropriate. DOLI was asked to review finding D and take whatever action is deemed appropriate. An appropriate response was received from RSC.

Auditee Name: Report on the Controlling and Monitoring of Non-Tax Revenue by Various State Agencies

Audit #: 88-5014-9

This report reviewed the billing and collection procedures for non-tax revenues by agencies of the Commonwealth. The report was issued by the Auditor of the Commonwealth for the fiscal year ended June 30, 1987. A summary of the findings contained in the report which pertain to Executive Office of Human Services agencies and facilities is as follows:

A. The Department of Social Services has billed the federal government for reimbursement of $8.3 million in funds for Title IV-E non-voluntary foster care administration. This quarterly request has increased from $400,000, due to a DSS change in allocation of the program's administrative costs. The U.S. Department of Health and Human Services was reviewing this request prior to reimbursement. DSS planned a cost study quarterly to project accurate non-voluntary foster care administrative costs.

B. A review of the Department of Public Welfare accounts receivable noted the following:

   1. The Centralized Recoupment Unit had a $72.2 million receivables balance due from either ineligible clients or clients who had been overpaid. All of these individuals had entered into repayment plans either through the courts, billings from DPW, or reductions of welfare grants. All reductions from grants were current. However, 45% of all cases, representing $36 million, were inactive because payment was more than 90 days behind.

      In its response, DPW stated that it had taken steps to maximize cases on grant reduction, referred delinquent cases to the courts or the Bureau of Special Investigations and was looking into the feasibility of a collection agency for inactive accounts.

   2. The Assignment Collection Unit had a $36.8 million balance potentially due from liens on deceased recipients' estates and on client-filed litigation for accidents and malpractice. Once cases are resolved DPW would be reimbursed for any medical payments it had made.

In its response, DPW stated that it had obtained, on a performance basis, the services of private firms for the recovery of costs, and that it had developed a system for tracking recoveries.

3. The Program Performance and Management Review Unit had a $2.8 million balance of identified questioned costs, $1.7 million of which were questioned provider services. Repayment plans for $302,000 of the balance existed and were current with payment.

   DPW responded that it was reviewing these cases.

4. The Retroactive Rate Recovery Unit had a balance due of $28.8 million, which DPW felt it could potentially recover from providers after Rate Setting Approval of rates. While awaiting rate approval, DPW paid clients an agreed-upon rate. All payments were recorded by DPW staff on individual ledger cards, by client, as due to the Commonwealth. After rate approval, payment or recovery was made for the correct payment amounts. There was no monthly update of this recovery balance.

   DPW responded that an automated tracking system was being developed.

5. DPW was carrying a $1.7 million balance due from clients who maintained health insurance. This third party liability represented recovery by DPW from the insurance companies for its share of the cost of services.

   DPW responded that its identification and collection of third party resources was fully automated and that during fiscal year 1989 it matched its files against those of all Massachusetts Insurers to determine all third party resources.

6. DPW had advanced $9 million to landlords for apartment security deposits, as of June 30, 1987. There was no system in place to monitor these deposits or collect interest earned. The Auditor estimated that these deposits could have earned $450,000 of interest income. The Auditor also confirmed that a large amount of these deposits were used to pay back rent, and would never be returned to the Commonwealth.

DPW responded that an automated tracking system was under development and that it had sent bills to all landlords who maintained Department funded security deposits. This action had resulted in the collection of over $424,000 in interest and security deposits.

C. The Auditor was critical of revenue billing and collection procedures and records at facilities maintained by the Department of Mental Health, Department of Mental Retardation, Department of Public Health and at the Soldier's Home of Holyoke.

1. The Soldier's Home of Holyoke was found to be billing for some services more than 90 days after the service period. During the July 1987 through January 1988 period, $376,775 (8% of billable services) were billed in the late manner described above. In addition, the Home was not pursuing potential third-party payments on physical and occupational therapy services of an estimated $125,435.

   The Home responded that it did not feel that additional staff time should be spent to pursue payment on potentially uncollectible revenue. It also replied that it was now current with all billing. Since the hiring of additional clerical staff and the installation of a computer billing system, it was now submitting billings within ten days of the end of the service month.

2. The Westborough State Hospital lost its Medicaid certification during the period from April 1986 through April 1988. In April 1988, the Hospital made an adjusting entry to its books which erased an uncollectible amount of $5 million because of the lost accreditation.

   The Commissioner of Mental Health responded that the Department was in the process of recertification of the Hospital.

3. The Auditor was not able to perform a review of accounts receivable balances at the hospitals operated by the Department of Public Health. DPH was in the process of installing an automated billing system. It was manually billing for client services and was waiting until the computer system was operating to record all receivables. To stress the need for a system which would capture all patient information, the Auditor repeated several findings from a previously released audit report on the Lemuel Shattuck Hospital, for fiscal years 1985 and 1986.

a. The Hospital did not maintain adequate records of its accounts receivable, therefore having no assurance that it was receiving the correct revenue.

b. The Hospital's cashier's office had not maintained a general ledger since June 30, 1982.

c. Because the Hospital maintained inadequate accounts receivable records, an accurate balance was not available for the two years ended June 30, 1986.

d. The patient accounts department did maintain individual subsidiary ledger accounts, but did not reference receipts posted to it to the Hospital's cashbook for cross-reference identification, making it difficult to determine if all payments were accounted for.

e. The outpatient billing department also maintained subsidiary ledger accounts. However, it only reported the amounts billed and not the amounts received. This made the determination of the patients' receivables impossible. During fiscal year 1986 (the first year of computerized billing), the Hospital reported an accounts receivable balance of $19,889,253. This balance did not, however, take into account any balance prior to July 1, 1985. It included $4,696,656 which represented the state's portion of Medicaid and any other federal adjustments. In addition, there had been no adjustment for uncollectible accounts since June 30, 1982.

   In its response, The Hospital agreed with this finding.

During the Auditor's review of Non-Tax Revenue, $55 million was identified as uncollectible prior to June 30, 1985. A balance for uncollectibles for the July 1, 1985 to June 30, 1987 was not possible due to the nature of the Hospital's records.

The Department of Public Health responded to the non-tax revenue audit by recognizing administrative problems and outlining its new ABACUS billing system. It pledged its resources to improvement of the collection and write-off of patient revenue.

D. The Auditor reported that a review of billing and collection of revenue and the control of retained revenue was not possible at two Department of Correction programs, the Division of Food and Agriculture and Correctional Industries. The Auditor reported that records at these programs had not been maintained for months.

The Commissioner of the Department of Correction responded that all of the business entities within his department were aware of the need to recognize revenue in a timely fashion, and as such were in aggressive pursuit of all revenues. The Commissioner stated that these programs would concentrate on facilitation of retrieval of revenue information. He further responded that both programs had worked at implementing the Auditor's recommendations from previous audits, which had improved the programs' billings and collections of revenue.

E. The Auditor reported that a review of the documentation required for all reported accounts receivable balances determined that two EOHS agencies and two facilities operated by EOHS agencies were not in compliance. The four were cited because supporting worksheets could not be located, control accounts supporting reported balances could not be found, and methods for estimating balances were not documented. Because the accuracy of the reported accounts receivable balances could not be documented at the year ended June 30, 1987 or the date of the Auditor's subsequent review, it was not possible to determine if all revenues were being pursued in a timely manner.

The four cited for these deficiencies were:

Department of Public Welfare	$31,211,999
Lakeville State Hospital (DPH)	$12,779,696
Lemuel Shattuck Hospital (DPH)	$ 5,693,694
Rate Setting Commission	$ 270,185
	$49,955,574

The Executive Secretary of the Rate Setting Commission responded that all supporting records for the reported accounts receivable balances were maintained by his agency. In addition, he stressed that his agency did not estimate accounts receivable, but rather recorded all receivables as actual figures. DPH responded that it was working to bring all billing up to the current period, and to identify all accounts receivable.

F. The Auditor reported on several EOHS agency and EOHS agency-operated facilities which had accounts receivable balances as noted on exhibit #1 to this letter. These amounts were exclusive of the amounts discussed elsewhere in this letter and are not a complete aging of all the Commonwealth's receivables.

The Auditor noted that the accurate aging of accounts receivable would allow for better collection procedures and increase the revenue ultimately collected by the Commonwealth.

The Departments of Mental Health, Mental Retardation, Public Health and the Commission for the Blind have responded that they were working to improve the collection of accounts receivable. The Executive Director of the Rate Setting Commission responded that his agency vigorously collected every receivable due to it, never having written off an uncollectible account.

G. The Auditor noted that there were no uniform state-wide procedures for the collection of past-due accounts or their write-off as uncollectible. These activities were performed as each agency saw fit. The Auditor noted the following practices in three EOHS agencies:

1. At each DMH and DMR facility, there was an investigator whose duties included reviewing past-due accounts for write-off. The respective DMH and DMR central offices did not compile the bad-debt expenses.

2. On June 30, 1988 the Department of Public Welfare had a balance due of $33 million in accounts receivable related to medical assistance recoveries. The Department maintained a policy for negotiation of

settlements, but there was no record of amounts written off as a result of these negotiations.

3. The Auditor listed the following write-offs at EOHS agency operated facilities, as examples of what the State was losing due to a lack of a coordinated collection system:

Lakeville State Hospital (DPH)	$ 803,000
Department of Social Services-Region V	$ 74,000
Walter Fernald School (DMR)	$ 95,000
Westborough State Hospital (DMH)	$ 267,000
	$1,239,000

DMH, DMR and DPH responded that they had taken steps to improve their agencies' procedures for collections and write offs.

H. The Auditor reviewed the amount of State funds spent on federally reimbursable programs to determine the amount of interest lost due to the time which elapses between expenditure of State funds and subsequent federal reimbursement. It was noted that a large portion of these funds were spent in the Department of Public Welfare's Direct Medical Assistance and Aid to Families with Dependent Children programs, and the Department of Mental Health's maintenance (patient care) programs. The auditor estimated the lost interest revenue at $5.9 million.

The Commissioners of Mental Health and Public Welfare responded that their departments were committed to maximizing revenues for the Commonwealth, and have been addressing the issues raised by the Auditor.

EOHS/OAA requested that DSS, DPW, the Soldier's Home of Holyoke, DPH, DMH, DMR, DOC, and the Massachusetts Commission for the Blind respond in writing, describing the actions taken to address applicable issues since the issuance of the report. Findings E and F were referred to the Rate Setting Commission for informational purposes. DMR has submitted a response which is under review.

EXHIBIT #1

Account Receivable Aging
At Certain State Agencies

Agency	Less Than 90 Days	Up To 9 Mo.	1 to 5 Years	Over 5 Years	Total
Rate Setting Commission	$ 284,000	$ 83,000	$ 46,000		$ 413,000
Ma Comm. for the Blind	94,000	3,000			97,000
Lemuel Shattuck Hospital			25,000,000	30,000,000	55,000,000
Lakeville State Hospital	7,671,000	7,671,000			
DSS Central Office	10,000,000	10,000,000			
DSS Region V-Brockton	21,000	3,000	2,000		26,000
Department of Mental Health	500,000				500,000
Dept. of Mental Retardation	1,100,000	4,100,000			5,200,000
Berry/Hogan Regional Center		11,000			11,000
Walter Fernald School	25,000	7,000	8,000		40,000
Taunton State Hospital	94,000	183,000	1,332,000		1,609,000
Westborough State Hospital	63,000	53,000	67,000		183,000
	$12,181,000	$12,114,000	$26,455,000	$30,000,000	$80,750,000

Auditee Name: Sojourn, Inc.
6 Myrtle Street
Northampton, Ma. 01060

Audit #: C-588-88

Sojourn, Inc. provided four types of services to meet the special needs of 13 - 22 year old women during the audit period. The provider contracted with the Departments of Social Services, Public Welfare, and Youth Services and was audited for the year ended June 30, 1986.

A summary of the audit report findings includes:

A. Several weaknesses were noted in the provider's internal controls.

B. The provider's financial statements did not include a compliance segment of the report or a letter giving independent assurance that the financial record-keeping practices complied with the requirements defined in Attachment C of the Standard DSS Purchase Agreement. In addition, the financial statements did not contain a statement of functional expenses or a balance sheet segregated by restricted and plant and equipment funds.

C. The provider allowed compensatory time off to employees who worked over a 40-hour work week.

D. The provider did not file an IRS Form 1099 for an individual that received $600 in cash and $407 in free service during calendar year 1985.

E. As of June 30, 1986, the provider carried as a liability on its balance sheet deferred income of $9,540 from a DPW contract related to child care services which were not provided during the fiscal year. According to management, this amount was applied to income in the following year and used to offset expenses under the DPW contract.

F. The provider did not disclose volunteer services totaling $11,082 on schedules 2, 4, and 21 on the RSC-1100 Cost Report.

G. The financial statements of Sojourn, Inc., audited by Mark A. Goldberg, Certified Public Accountant, indicated a $13,842 fund balance as of June 30, 1986. This balance included excess income over expenses of $9,841 which accrued during fiscal year 1986.

Total revenues and support received by the provider for this same period amounted to $383,367, of which $298,946 was supported by DYS, DPW, and DSS contracts. Of the $66,878 generated from other fee-for-service payments, $12,289 was received from local cities and towns, $53,857 from client fees, and $732 from non-EOHS agencies. Additionally, $17,543 was received from donated services, fund raising, grants, bequests and interest income.

Total EOHS agency revenues, $298,946, represented 78 percent of income, while other fee payors for service represented seventeen percent of income. The remaining revenues represented five percent of income.

EOHS/OAA requested that DSS negotiate an administrative agreement with Sojourn, Inc., which addresses findings A, B, and D. DPW was requested to review the circumstances and address the appropriateness of recovery of funds noted in finding E. RSC was requested to review finding F and confirm that this information has already been taken into account in rate determinations. DOLI was asked to review finding C and take whatever action is deemed appropriate. An appropriate response was received from RSC.

Auditee Name:	Soldier's Home-Holyoke Cherry Street Holyoke, MA 01040
Audit #:	88-64-1

Soldier's Home-Holyoke is a state-owned veterans' home and hospital, within the Executive Office of Human Services. This audit was conducted by the Auditor of the Commonwealth for the fiscal year ended June 30, 1987. A summary of the audit findings is as follows:

A. During the audit period, the Home was not promptly billing for inpatient and outpatient services to third-party insurers. This resulted in $421,935 of accounts receivable which were billed in an untimely manner. The Auditor reported that this resulted in loss of interest income and prevented the timely use of these funds. The Auditor noted that the Home had taken steps to update its billing practices.

   The Home responded that it now was able to bill within two weeks of service provision.

B. During the audit period, the Home provided $235,928 of physical and occupational therapy patient services, of which $110,493 was reimbursed by Medicare. The Auditor reported that some of the remaining $125,435 may have been, but was not, billed to third-party insurers. The Home stated that it was not cost effective, due to staffing inadequacies, to pursue these reimbursements.

C. The Auditor questioned the expenditure of $135,425 out of $199,761, 68% of the fiscal year total, from the Retained Revenue Account. In the Auditor's opinion, these questioned expenditures were not performed under the provisions of legislative language. The Home was allowed to retain three percent of all income taken in through third-party and individual reimbursements. This Retained Revenue was to be spent for patient care subject to the approval of the Secretary of Human Services. The Home followed the approval process for its expenditures during the audit period. However, the Auditor believed that the $135,425 could have been paid through normal maintenance appropriations, leaving the Retained Revenue Account for expansion of patient care.

D. In a prior audit report (#86-64-1), the Auditor made recommendations for the improvement of controls over physical property and materials and supplies. This audit report confirmed that several of the recommendations had been implemented. However, the following weaknesses were still found in the Home's controls:

1. The Home's latest inventory listing was incomplete. The Home had not completed the tagging of all equipment as recommended in the prior report. The Auditor cited 27 items valued at $10,339 which could not be located. Numerous items were found to be in locations other than those stated on the inventory list. In addition, 25 donated items were not accounted for on the inventory list.

   The Home responded that the missing items were acquired over 20 years ago and were probably scrapped. It stated an intention to improve the inventory list in all deficient areas.

2. The Auditor noted several improvements in the controls of the pharmacy supplies. However, deficiencies still existed in this area, and in the areas of kitchen supplies, freezer contents and gasoline as follows:

   Pharmacy Supplies:

   Perpetual records were not maintained for uncontrolled substances. In addition, physical inventories were not performed with an employee besides the pharmacist present.

   The Home responded that it needed the use of a computer to maintain adequate control over uncontrolled substances.

   Kitchen Supplies:

   Access to the food storeroom was not controlled. Items received from the storeroom were not counted and verified. In addition, items drawn from the refrigerators were not recorded on daily inventory sheets.

   The Home responded that the storeroom was now locked, and that all items received by personnel were counted and verified.

Freezer Contents:

Perpetual inventory cards were not maintained for the contents of the freezer. In addition, periodic inventories were not performed.

The Home responded that it was in the process of setting up perpetual inventory cards for all of the freezer's contents.

Gasoline:

The Home did not maintain beginning and ending meter readings. The gas pump meter was not calibrated. Gas slips were not always completed by personnel, and the stock ledger and the gas usage record had mathematical errors.

The Home responded that it would verify the amount of deliveries and have the pump meter calibrated. It also stated that pre-numbered gasoline slips would be issued.

E. The Auditor noted several areas which needed improvement in the Home's administrative controls. The following were the deficiencies noted:

1. It was noted that during both fiscal years 1986 and 1987, year end encumbrances totalling $7,876 were used to pay for subsequent year expenditures. In addition, it was noted that during fiscal year 1987, $1,358 encumbered for a specific purpose was expended on another purpose. Both of these practices violated Comptroller regulations.

   The Home responded that this practice would be stopped.

2. The Auditor noted that 38 of 39 payment vouchers tested during the audit period were not approved by administrative staff.

   The Home responded that the Fiscal Officer was now examining and signing all payment vouchers.

3. The Home was paying $23,000 per year on a maintenance contract for its elevators which expired June 30, 1983. The Auditor reported that the home had no assurance for the last four years that the elevators would be routinely maintained and meet all safety requirements. It also was recommended that contracts of this nature should be periodically put out for competitive bid.

The Home responded that all maintenance contracts would be put out to bid on an annual basis.

4. The Home reverted $43,333 to the Commonwealth. This included $37,199 from its maintenance appropriation and $6,134 from an Adult Day-Care Center. The Auditor reported that this amount could have been used the partially cover the costs questioned in finding C.

   The Home responded that 90% of those funds reverted in the audit period were for payroll and not available to be expended for other purposes.

5. The Home had not modified its Budgetary Control Register to comply with the Massachusetts Management Accounting Reporting System. This resulted in several variances between the Home's records and those of the Comptroller.

   The Home responded that it had since made the modifications necessary to reconcile its records to the Comptroller's.

EOHS/OAA requested that Soldier's Home-Holyoke respond in writing describing the actions taken, since the issuance of the report, to address each of the weaknesses noted.

Auditee Name:	St. Paul's Outreach 29 Chatham Street Worcester, Ma. 01608
Audit #:	0-599-88

St. Paul's Outreach is a component of the Health and Social Service Corporation of Model Cities, a non-profit organization that provided services to multi-problem families in the downtown area of the city of Worcester during the audit period. The provider contracted with the Department of Social Services and was audited for the year ended June 30, 1987.

There were no findings contained in the audit report.

Auditee Name: Team Coordinating Agency, Inc.
350 Main Street
P.O. Box 844
Haverhill, Ma. 01831

Audit #: BC-211-88

Team Coordinating Agency, Inc., a non-profit corporation, provided services to mental health and substance abuse clients during the audit period. The provider contracted with the Departments of Public Health, Mental Health, Youth Services, and Social Services and was audited for the year ended June 30, 1984.

A summary of the audit report findings includes:

A. One weakness was noted in the provider's internal controls: there was no segregation of duties in all areas of the provider's accounting department.

B. The provider did not maintain a detailed listing of fixed assets or an inventory listing.

C. The provider could not locate a copy of a DYS contract.

D. A copy of the provider's Annual Report to the Secretary of State could not be located. It was subsequently verified that the report was not filed with the Secretary's office.

E. It was not possible to test the provider's billings to DSS because of poorly kept client records.

F. The financial statements of Team Coordinating Agency, Inc., audited by Frederick S. Atherton & Co., indicated a $40,361 fund balance comprised of a $31,019 unrestricted general fund, an $8,666 unrestricted residential fund and a $676 restricted Bureau of Nutrition fund as of June 30, 1984. This balance included excess income over expenses of $4,609 which accrued during fiscal year 1984.

   Total revenues received by the provider for this same period amounted to $263,755, of which $223,940 was generated by DPH, DSS, DMH, and DYS contracts. Of the $37,041 received from other fee-for-service payments, $33,875 was from client fees and $3,166 was received from a non-EOHS agency. Additionally, $2,774 was received from contributions, interest income and other support.

EOHS agency revenues received by the provider, $223,940, represented 85 percent of income, while other fee payors for service represented fourteen percent of income. The remaining revenues represented one percent of income.

EOHS/OAA requested that DPH negotiate an administrative agreement with Team Coordinating Agency, Inc., which addresses findings A and B. In addition, DYS and DSS were requested to negotiate administrative agreements with the provider that address findings C and E respectively. SOS was requested to review finding D and take whatever action is deemed appropriate. Appropriate responses were received from DYS and DPH.

Auditee Name:	Transition House, Inc. Box 530 Harvard Square Station Cambridge, Ma. 02238
Audit #:	C-594-88

Transition House, Inc., a non-profit corporation, provided temporary emergency shelter for women and children during the audit period. The provider contracted with the Department of Social Services and was audited for the year ended June 30, 1986.

A summary of the audit report findings includes:

A. Several weaknesses were noted in the provider's internal controls.

B. The provider's financial statements did not contain a compliance section giving independent assurance that the financial record keeping practices were in compliance with DSS requirements.

C. The provider's financial statements did not recognize approximately $101,000 in donated services on the Statement of Revenue and Support.

D. The provider did not have a system in place that provided documentation for travel related expenses. The provider had $1,564 of undocumented travel related expenses of which $800 was allocated to contracts funded by DSS.

E. The financial statements of Transition House, Inc., audited by Ellie Rozinsky, CPA, indicated a $141,404 fund balance comprised of a $49,873 current fund, a $29,489 restricted cash flow fund, and a $62,042 building and equipment fund as of June 30, 1986. This balance included excess expenses over revenue of ($1,263) which accrued during fiscal year 1986.

   Total revenue and support received by the provider for this same period amounted to $251,681. (This figure does not include approximately $101,000 of donated services.) Of this amount, $127,866 was generated by Department of Social Services contracts. Additionally, $123,815 was received from matching funds, donations, United Way of Massachusetts Bay, film sales, speaking and consulting, sales of posters and publications, and interest income.

EOHS agency revenues received by the provider, $127,866, represented 51 percent of income, while the remaining revenues represented forty-nine percent of income.

EOHS/OAA requested that DSS negotiate an administrative agreement with Transition House, Inc., which addresses findings A thru C. DSS was also requested to recover funds totaling $800 that were described in finding D.

Auditee Name:	United Cerebral Palsy Association of Metropolitan Boston, Inc. 71 Arsenal Street Watertown, Ma. 02172
Audit #:	C-591-88

United Cerebral Palsy Association of Metropolitan Boston, Inc., a non-profit corporation, provided services to persons with cerebral palsy and other developmental disabilities during the audit period. The provider contracted with the Departments of Mental Health, Mental Retardation, Public Welfare, and the Massachusetts Commission for the Blind, and was audited for the year ended June 30, 1986.

A summary of the audit report findings includes:

A. Several weaknesses were noted in the provider's internal controls.

B. The provider reported depreciation expense of $11,768, when in fact, $12,454 should have been reported.

C. The financial statements of United Cerebral Palsy Association of Metropolitan Boston, Inc., audited by Ziner & Co., CPA's, indicated a $301,978 fund balance, comprised of a $55,524 board designated fund and a $246,454 undesignated fund, as of June 30, 1986. This balance included excess income over expenses of $61,008, which accrued during fiscal year 1986.

   Total revenues and support received by the provider for this same period amounted to $1,143,849, of which $755,504 was generated by contracts with the Department of Mental Health, Department of Public Welfare, and Massachusetts Commission for the Blind. Other fee-for-service payments of $18,767 were generated from client fees. Additionally, $369,578 was received from contributions, private organizations and special events.

   The EOHS agency revenues received by the provider, $755,504, represented 66 percent of income, while client fees represented two percent of income. The remaining revenues represent thirty-two percent of the total income.

EOHS/OAA requested that DMR negotiate an administrative agreement with United Cerebral Palsy Association of Metropolitan Boston, Inc., which addresses finding A. RSC was requested to review finding B and determine the effect on rates of reimbursement. An appropriate response was received from RSC.

Auditee Name:	University of Massachusetts Trustees 225 Whitmore Administration Building Amherst, Ma. 01002
Audit #:	C-581-88

University of Massachusetts Trustees, a non-profit corporation, provided various social service programs and research projects during the audit period. The provider contracted with the Department of Social Services, Department of Public Health, and the Department of Mental Health and was audited for the year ended June 30, 1986.

A summary of the findings contained in the audit report includes the following:

A. Several weaknesses were noted in the provider's internal controls.

B. During the examination of client files of the Public Safety Employee Health Promotion program, it was noted that supporting documentation for units of service delivered and statistics reported on Participant Data Reports showed that a variance existed in three out of the six months in which testing was reported.

C. During the month of June 1986, it was noted that 86 units of education and counseling were billed by the Public Safety Employee Health Promotion program, however backup documentation was available for only 76 units.

D. While reviewing the financial records of the Learning Intervention Family Team, in five of the eight cases tested, it was noted that in family sessions where more than one therapist was involved, therapists billed for their time separately. This resulted in duplicate billing of units invoiced. The total of duplicate invoicing was 39.25 units at $27.73 per unit, or $1,088.

E. In the month of March 1986, overbilling of $1,292 occurred in the Rape Prevention and Victim Services contract. The discrepancy was noted by comparing the counselors' time sheets with the actual invoices used for billing.

F. During the audit a random sample of four client files was chosen for examination. The following deficiencies were noted: all four files did not contain physicians clearances, or follow-up evaluations; one file did not contain an informed consent form; one file did not contain a health risk appraisal; and two files did not contain exercise prescriptions. In addition, OFC was requested to review finding G and take appropriate action.

G. Examination of licensing requirements revealed that the license for one of the Child Care Program sites expired in October, 1985, and had not been reviewed as of the audit date.

EOHS/OAA requested that DSS negotiate an administrative agreement with University of Massachusetts Trustees which addresses findings A and G. In addition, DSS was requested to recover funds totaling $1,088 identified in finding D. The DPH was requested to negotiate an administrative agreement with UMT which addresses findings B, C, and F and also addresses the recovery of funds totaling $1,292 that were noted in finding E. The OFC was requested to review finding G and take whatever action is deemed appropriate. Appropriate responses were received from DPH and OFC.

Auditee Name:	Valley Oasis in Child Education, Inc. (VOICE) 316 Hartford Avenue Bellingham, MA 02019
Audit #:	O-606-88

Valley Oasis in Child Education, Inc., a non-profit corporation, provided day-care programs for children during the audit period. The provider contracted with the Department of Social Services and was audited for the year ended June 30, 1987.

A summary of the audit report findings includes the following:

A. There were several weaknesses noted in the provider's system of internal control.

B. A review of the audited financial statements prepared by Little and Bissonnette, CPAs, for the audit period revealed the following omissions:

   1. Compliance letter or segment giving assurance that the financial record keeping practices of the provider comply with the requirements of DSS;

   2. Statement of functional expenses;

   3. Comparative balance sheet.

C. The provider incurred expenses which were disallowed costs pursuant to Rate Setting Commission Regulations.

   1. The IRS assessed penalties and interest against the provider in fiscal year 1987 for not making correct payroll tax payments in a timely manner. Any interest or penalties incurred because of late payment of federal taxes was a disallowed cost.

   2. The provider issued checks without the funds to cover them, and therefore was charged $2,941 in penalties. According to RSC Regulation , penalties not related to the provision of care were disallowed expenses.

D. The provider did not require time sheets or attendance records for three salaried employees. The three were all family members of the executive director and earned $59,235 collectively. The EOHS General Conditions required that the provider maintain personnel records for each employee that included time and attendance records.

E. The provider paid $22,099 for transportation expenses during fiscal year 1987. The provider allowed three individuals to use vehicles for business and personal purposes and did not record the value of personal use, nor did it record the value as a fringe benefit on the employees' IRS Forms W-2, as required.

F. The financial statements of VOICE, Inc., audited by Little and Bissonnette, CPAs, indicated a ($20,095) fund deficit as of June 30, 1987. This deficit included excess expenses over income of ($41,691), which accrued during fiscal year 1987.

Total revenues received by the provider for this same period amounted to $604,677, of which $333,485 was supported by DSS contracts. Of the $271,144 generated from other fee-for-service payments, $257,087 was from client fees and $14,057 from the Massachusetts Department of Education, Bureau of Nutrition. Additionally, $48 was received from interest income.

EOHS agency revenues received by the provider, $333,485, represented 55 percent of total income, while other fee payors for service represented slightly less than forty-five percent of total income. The interest revenue represented less than one percent of total income.

EOHS/OAA requested that DSS negotiate an administrative agreement with VOICE, Inc. which addresses findings A, B, D, and E. RSC was requested to review finding C and take whatever action is deemed appropriate. All findings were referred to DSS, RSC, and DOE for informational purposes. RSC has responded adequately to all audit referrals.

Auditee Name: Valley Resource Center, Inc.
172 Chestnut Street
Springfield, Ma. 01103

Audit #: 0-608-88

Valley Resource Center, Inc., a non-profit corporation, provided residential services to adult mental health and mental retardation clients during the audit period. The provider contracted with the Department of Mental Health and was audited for the year ended June 30, 1987.

A summary of the audit report findings includes the following:

A. There were several weaknesses noted in the provider's internal controls.

B. Accrued vacation expense was not identified in the liability section of the Balance Sheet of the provider's audited financial statements. This resulted in an overstatement of the fund balance by $1,683.

C. The provider did not receive a copy of an FY 1987 blanket agreement from the Department of Mental Health (DMH) Central Office. The provider received $82,496 in revenues from the Central Office account. However, the provider received no formal agreement, prepared no proposal, and had no documentation available to support this revenue.

D. The provider was unable to provide copies of the proposals for seven of nine DMH contracts for fiscal year 1987.

E. The provider failed to offset client revenue against certain line items, totalling $27,939, in DMH cost reimbursement and unit rate contracts during fiscal year 1987.

F. The provider overbilled employee fringe benefits in DMH cost reimbursement contracts in the amount of $3,130 during fiscal year 1987.

G. Based upon a review of Schedules 19 and 22 of the fiscal year 1987 Rate Setting Commission 1100 Cost Report, the provider incurred a net deficiency of ($43,516) in EOHS contract revenue during the fiscal year. Of the five EOHS funded programs, the provider incurred deficiencies in DMH funding of ($60,028) in three programs and realized excess revenue of $16,512 in DMH funding in the remaining two programs. The three programs that incurred deficits in EOHS funding represented 65% of revenue. The two programs that realized excess EOHS funding represented 35% of revenue.

H. A review of the provider's financial status was conducted to determine solvency. The review was for the period July 1, 1987 through the current fiscal year, and was concluded on December 2, 1988.

The fiscal year 1987 cash flow ratio, of current assets over current liabilities, was .89 to 1. The agency increased its total revenue from $582,345 in fiscal year 1987, to approximately $1,000,000 in fiscal 1988. The fiscal 1989 revenue is projected to be approximately $2,000,000, based on a review of EOHS contracts in effect as of December, 1988. In addition, this review revealed that the provider's financial position has deteriorated further.

As of the end of field work, the audited financial statements had not been completed for fiscal year 1988, due to the transition of fiscal recordkeeping from a private accounting firm to internal bookkeeping staff.

As of July 1, 1988, the provider's payroll tax liability had not been addressed in a timely manner, causing the corporation to incur serious interest and penalty expenses. The outstanding payroll tax liability, as of November 14, 1988, totaled $73,793, which included a $57,355 liability to the IRS, a $11,114 liability to DOR and $5,324 to DET.

A $125,000 line of credit was fully exhausted to meet other current expenses. The Executive Director stated that efforts are currently being taken to initiate fundraising and related activities to increase revenue.

A recommendation immediately to establish an internal budget reflecting monthly expenditures against contract income, and to monitor it closely, was positively received.

I. The financial statements of Valley Resource Center, Inc. audited by Karl W. Edelmann, CPA, indicated a $5,597 fund balance comprised of an ($11,026) fund deficit, and a $16,623 property and equipment fund balance, as of June 30, 1987. This balance included excess income over expenses of $6,027 which accrued during fiscal year 1987.

Total revenues received by the provider for this same period amounted to $582,345, of which $533,635 was supported by Department of Mental Health contracts. Of the $48,169 generated from other fee-for-service payments, $42,949 was from client fees, and $5,220 from subcontract income from another provider. Additionally, $541 was received from donations and interest income.

EOHS agency revenues received by the provider, $533,635, represented approximately 92 percent of total income, while other fee payers for service represented approximately eight percent of total income. The remaining revenues represented less than one percent of total income.

EOHS/OAA requested that DMH negotiate an administrative agreement with Valley Resource Center, Inc. which addresses findings A, B, C, D, G, H, and I. In addition DMH was requested to recover funds totaling $3,130 from finding F, and to review the appropriateness of recovery of funds in E. EOHS/OCM was requested to review findings G, H, and I and take whatever action is deemed appropriate. The DET was requested to review finding H and take whatever action is deemed appropriate. It should be noted that finding H was also referred to the IRS. All findings were referred to the RSC for informational purposes. Appropriate responses were received from EOHS/OCM and DET, and a response was received from DMR, however, one issue needs further clarification.

Auditee Name:	Vinfen Corporation 28 Travis Street Boston, Ma. 02134
Audit #:	BC-569-87

Vinfen Corporation provided in-patient and out-patient services to mentally ill and mentally retarded persons during the audit period. The provider contracted with the Departments of Mental Health, Public Health, Public Welfare, and Social Services and was audited for the year ended June 30, 1984.

A summary of the audit report findings includes:

A. Several weaknesses were noted in the provider's internal controls.

B. The provider failed to disclose in the RSC 500 Cost Report, the Federal Form 990 and the Massachusetts Public Charities PC Form, a related party transaction regarding a $68,153, unsecured, non-interest bearing demand note payable to Mental Health Programs, Inc.

C. The financial statements of Vinfen Corporation indicated a $408,391 fund balance as of June 30, 1984. This balance included excess income over expenses of $93,102 which accrued during fiscal year 1984.

   Total revenues and support received by the provider for this same period amounted to $5,079,529, of which $3,908,546, was generated from the Departments of Mental Health, Public Health, Public Welfare, and Social Services. The remaining $1,170,983, was generated from fee-for-service payments from clients, and fees and awards from non-EOHS agencies.

   EOHS agency revenues received by the provider, $3,908,546, represented 77% of income, while other client fees for service represented twenty-three percent of income.

EOHS/OAA requested that DMH negotiate an administrative agreement with Vinfen Corporation, which addresses findings A and B.

Auditee Name:	Webster Square Day Care Center, Inc. 1048 Main Street Worcester, Mass. 01603
Audit #:	C-583-88

Webster Square Day Care Center, Inc., a non-profit corporation, provided day care and family day care services to income eligible recipients during the audit period. The provider contracted with the Department of Social Services and was audited for the year ended June 30, 1987.

A summary of the audit report findings includes:

A. There were several weaknesses noted in the provider's internal controls.

B. A related party relationship between the provider and Aldersgate United Methodist Church was not disclosed on the Attorney General's Form PC or on the IRS Form 990. These parties were related because they had common members of the Boards of Directors.

C. The provider did not disclose the related party information on Schedule 27 of the RSC-1100 as required.

D. The financial statements of the Webster Square Day Care Center, Inc., audited by Harrington, Elwood & Trask, Certified Public Accountants, indicated a $95,097 fund balance comprised of a $471 Christmas Fund and a $94,626 Undesignated Fund as of June 30, 1987. This balance included excess income over expenses of $19,892 which accrued during the fiscal year 1987.

Total revenues received by the provider for this same period amounted to $804,376, of which $581,030 was generated by DSS contracts. Of the $218,097 generated from other fee-for-service payments, $73,208 was from the Department of Education, Bureau of Nutrition, $49,350 was from the City of Worcester, $76,287 was from Client Fees, and $19,252 was from Child Care Resources. Additionally, $5,249 was received from interest and other revenue.

EOHS agency revenue received by the provider, $581,030, represented 72 percent of the total income while other fee payors from service represented twenty-seven percent of total income. The remaining revenues represented one percent of total income.

EOHS/OAA requested that DSS negotiate an administrative agreement with Webster Square Day Care Center, Inc. which addresses findings A and B. RSC was requested to review finding C and take appropriate action. The Attorney General's Office was asked to review finding B and take whatever action is deemed appropriate. Appropriate responses were received from RSC and the Attorney General's Public Charities Division.

Auditee Name:	Worcester Area Community Mental Health Center, Inc. P.O. Box 229, Greendale Station Worcester, Ma. 01606
Audit #:	BC-576-88

Worcester Area Community Mental Health Center, Inc., provided social services, mental health services, rehabilitation services, and educational services during the audit period. The provider contracted with the Department of Mental Health and the Massachusetts Rehabilitation Commission and was audited for the year ended June 30, 1984.

A summary of the audit report findings includes:

A. Two weaknesses were noted in the provider's internal controls.

B. A review of DMH unit rate contracts #25503 and #25527 determined that the amounts invoiced and received exceeded actual costs by $13,493 and $13,004, respectively. These amounts represented 11.5% and 10.3% respectively, of total income received through the contracts. The EOHS Audit Resolution Policy, requires reporting of any variance greater than 5% or $50,000, whichever is less, in unit rate contracting, to the purchasing agency and to the Rate Setting Commission.

C. The financial statements of Worcester Area Community Mental Health Center, Inc. audited by Arthur Young and Company, indicated a fund balance of $191,524 comprised of a $135,820 current fund, and a $55,704 equipment fund as of June 30, 1984. This balance included excess expenses over revenue of ($42,679) which accrued during fiscal year 1984.

   Total revenue and support received by the provider for this period amounted to $2,738,727, of which $2,219,432 was generated from Department of Mental Health and Massachusetts Rehabilitation Commission contracts and support. Of the $365,735 generated from fee-for-service payments, $313,992 was from client fees, and $51,743 was from the City of Worcester. Additionally, $153,560 was received from a grant from the National Institute of Mental Health, interest income, donations and other income.

EOHS agency revenues and support received, $2,219,432, represented 81 percent of income, while other fee payers for service represented thirteen percent of income. The remaining revenues represented six percent of income.

EOHS/OAA requested that DMH negotiate an administrative agreement with Worcester Area Community Mental Health Center, Inc., that addresses finding A, and which addresses the appropriateness of recovery of funds noted in B.

Auditee Name:	Work Opportunity Center, Inc. 271 Park Street West Springfield, Mass. 01089
Audit #:	C-587-88

Work Opportunity Center, Inc., a non-profit corporation, provided vocational training and employment services during the audit period. The provider contracted with the Department of Mental Health and was audited for the year ended June 30, 1986.

A summary of the audit report findings includes:

A. There were several weaknesses noted in the provider's internal controls.

B. The provider did not maintain its accounting records by contract as required.

C. The provider understated DMH income by $4,111 in the general ledger and the financial statements. The figure was recorded as an adjustment to both of these instruments. The provider should have recorded $3,499 of this amount as an equipment expense under contract #15376 and should not have recorded it as an adjustment to income for this contract. The difference of $612 was unaccounted for.

D. The provider did not issue an IRS form 1099 to a consultant who earned $4,330, during calendar year 1986, or an accompanying IRS form 1096.

E. Numerous discrepancies were noted between the provider's financial statements and the RSC-1100 Cost Report for the year ended June 30, 1986. In fact, such discrepancies were noted between the RSC-1100, IRS Form 990, Attorney General's Form PC and the audited financial statements.

F. The financial statements of Work Opportunity Center, Inc., audited by John F. Walsh, CPA, indicated a $78,993 fund balance comprised of a $40,450 operating fund and a $38,543 plant fund as of June 30, 1986. This balance included excess income over expenses of $29,524 which accrued during fiscal year 1986.

Total revenues reported by the provider for this same period amounted to $643,970, of which $344,888 was generated by DMH contracts. Of the $270,354 from other fee-for-service payments, $239,516 was generated from sales to private industry and $30,838 was from tuition. The remaining $28,728 consisted of income from the employees cafeteria, rents, contributions and interest income.

EOHS agency revenues received by the provider, $344,888, represented 54 percent of total income while other fee payers for service represented forty-two percent of total income. The remaining income represented four percent of total income.

EOHS/OAA requested that DMH negotiate an administrative agreement with Work Opportunity Center, Inc. which addresses findings A, B, and C. RSC was requested to review finding E and take whatever action is deemed appropriate. In addition, finding D was referred to the IRS for its review. An appropriate response was received from RSC.

SECTION IX

GLOSSARY OF TERMS

Audit

An objective and independent critique of management operations and performance. Governmental auditors examine not only books, records, and financial statements, but also review for (l) compliance with applicable laws and regulations, (2) economy and efficiency of operations, and (3) effectiveness in achieving program results.

Conflict of Interest

A conflict, for an individual, between loyalties owed to more than one source. Conflicts for state employees or persons paid under consultant contracts with state agencies are governed by G.L. c.268A, under the jurisdiction of the State Ethics Commission. Conflicts for employees of private organizations typically arise when the duties owed to the organization and/or its clients conflict with the financial interests of the individual.

Compliance with Terms of the Contract

EOHS has issued approved standard contract forms for all social and rehabilitative contracting, and annually promulgates the EOHS General Conditions which are incorporated into the contracts (see below). Further, some contracting agencies have required that additional contracting conditions be included in the terms of the contract (e.g., DMH and DSS Contract or Audit Manuals or Guidelines). Compliance with these is included in the broad definition of the "services" which the Commonwealth is purchasing through the contract.

EOHS General Conditions

A set of generally applicable standard contracting principles, promulgated by EOHS for each fiscal year pursuant to the authority granted in G.L. c.6A, S16, and incorporated into every contract entered into by any human services agency for consultant, social and rehabilitative and transportation services.

Excess Revenue Over Expenditure ("Surplus Funds," so-called)

Those revenues derived as a result of a provider organization being reimbursed by the Commonwealth in an amount greater than the actual costs reasonably related to providing the services which the Commonwealth is purchasing. In many cases, this results from underspending rather than overpayment.

Excess Expense Over Revenue ("Deficit")

Those deficit revenues derived as a result of a provider organization being reimbursed by the Commonwealth in an amount less than the actual costs reasonably related to providing the services which the Commonwealth is purchasing.

Financial and Compliance Audit

All Federal and most State and local governmental auditors (including EOHS/OAA staff) and contracted auditors (per the EOHS General Conditions) must adhere to the standards and procedures of Generally Accepted Government Auditing Standards (GAGAS) as promulgated by the Comptroller General of the United States. These Standards incorporate the field work and reporting standards of the AICPA and include supplemental standards and requirements. A financial and compliance audit could consist of two types of financial audits, financial statement and financial related audits.

Financial statement audits determine (1) whether the financial statements of an audited entity present fairly the financial position, results of operations, and cash flows or changes in financial position in accordance with generally accepted accounting principles, and (2) whether the entity has complied with laws and regulations for those transactions and events that may have a material effect on the financial statements.

Financial related audits include determining: 1) whether financial reports and related items, such as elements, accounts, or funds are fairly presented, 2) whether financial information is presented in accordance with established or stated criteria, and 3) whether the entity has adhered to specific financial compliance requirements.

Fund Balance

Fund balance is a reflection of a non-profit organization's net worth (assets). This includes separately accounting for restricted and unrestricted resources. Restricted resources are either legally restricted by a donor or another outside party, or designated by the board for a specific purpose or use. Unrestricted resources are available for any legitimate use by the organization. When such resources, together with the related liabilities (debts) are accounted for separately, the separate set of accounts constitutes a fund, and the net assets in the fund are called the Restricted Fund Balance, or the Unrestricted Fund Balance. An organization may have several restricted and unrestricted funds. Combined restricted and unrestricted fund balances taken as a whole comprise the organization's fund balance.

Internal Control Findings

Internal control findings are those audit observations which address material weaknesses in the organization's system, and all of the methods and measures adopted by it to safeguard its assets. This system should provide built-in checks on the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to managerial policies. Generally Accepted Auditing Standards (GAAS) and General Accepted Government Auditing Standards (GAGAS) require certified public accountants privately hired by the organization, as well as government auditors, to initially examine and evaluate an organization's system of internal controls. The standards also require the auditor to disclose to the organization any material weaknesses encountered in its systems. Under the new Uniform Financial Report system issued by the EOAF Office of Purchased Services, all contractors will be required to file a written report on its internal control system, prepared by its CPA firm, with the Commonwealth. Unfortunately, this requirement will not be in place until the fall of 1990, for FY 1990 reporting.

IRS, DOR, DES Filing Requirements

Requirements applicable to corporations or other business organizations, and the individual employees of such organizations, imposed by federal or state laws and regulations, under the jurisdiction of the Internal Revenue Service, the Massachusetts Department of Revenue, or the Massachusetts Division of Employment and Training, regarding reports, returns, or other documents which must be filed with such agencies.

Performance Audits

Performance audits include economy and efficiency and program audits. Economy and efficiency audits include determining: 1) whether the entity is acquiring, protecting, and using its resources (such as personnel, property, and space) economically and efficiently, 2) the causes of inefficiencies or uneconomical practices, and 3) whether the entity has complied with laws and regulations concerning matters of economy and efficiency. Program audits include determining: 1) the extent to which the desired results or benefits established by the legislature or other authorizing body are being achieved, 2) the effectiveness of organizations, programs, activities, or functions, and 3) whether the entity has complied with laws and regulations applicable to the program.

Public Charities Filing Requirement

Pursuant to G.L. c.l2, Section 8F, all non-profit charitable corporations must annually file a form containing basic information with the Public Charities Division of the Department of the Attorney General. In addition, such organizations with gross annual revenues of $l00,000 or more must annually file certified audited financial statements. Under the new Uniform Financial Report system issued by the EOAF Office of Purchased Services, all providers filing the Uniform Financial Report may be deemed to have satisfied this filing requirement as well.

Rate Setting Commission Cost Reports

These documents report actual costs incurred by a provider organization during the fiscal year. The cost report states the financial position and results of financial operations of the organization by providing a balance sheet and financial statements and schedules illustrated on a program basis (one program may be funded by several contracts). The report also includes numerous detailed schedules of selected costs and program questionnaires with additional requirements, including the reporting of all related party transctions and tax payments. RSC has used the cost report to establish rates of payment based on historical cost and as reasonable justification for those rates established prospectively. All cost reports have been certified under the pains and penalties of perjury by an officer of the organization. The cost report most typically filed by providers of social and rehabilitative services, the RSC 1100, has been replaced for FY 1989 cost reporting by the Uniform Financial Report issued by the EOAF Office of Purchased Services.

Related Party Transactions

Financial transactions (e.g., leases, sales, loans) between two or more individuals and/or organizations which are associated or affiliated by common ownership or control. These relationships are not per se illegal, unless a conflict of interest results. However, disclosure of such transactions by non-profit corporations has been required by the Rate Setting Commission, the Public Charities Division of the Department of the Attorney General, and the Internal Revenue Service, and failure to disclose as required may lead to imposition of appropriate sanctions. If such transactions are entered into in an attempt to obtain reimbursement disallowed in regulations of the Rate Setting Commission, then RSC can disregard the legal fiction and treat the related parties as if they were the same entity. For example, reimbursement prohibited by constitutional provisions (e.g., Anti-Aid Amendment, Credit Clause), cannot legally be obtained by conveying the property to a second organization and "leasing" it back.